

Decision No. 39213

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation upon the Commission's own motion into the reasonableness of the rates and charges, and into the sufficiency and adequacy of the operations, service, and facilities of San Diego Electric Railway Company.) Case No. 4709

ORIGINAL

FORREST A. COBB, for petitioner; J. R. GOODEODY, City Attorney, City of Coronado; EDWARD H. LAW, for City Attorney's office, City of San Diego; W. O. CAMPBELL, City Attorney for National City; E. A. EIGGS, City Attorney, City of Chula Vista; R. W. COLE, for community of Lemon Grove; JOHN B. HARMAN and C. O. BURGIN, for the Office of Price Administration, interested parties.

CLARK, Commissioner

O P I N I O N

The Commission has heretofore issued an interim opinion and order in this proceeding by its Decision No. 36890, dated February 18, 1944. In that order the carrier's rates were reduced on an experimental basis in a number of respects. (1)

These changes were agreed to following conferences participated in by representatives of the City of San Diego, the company, and the Commission's staff. In that decision the

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- (1) A. The token fare was extended from use between zones one and two to use between any two contiguous zones, and not more than one token to be used on any one one-way trip. Token rates were reduced from four for thirty cents to four for twenty-five cents.
 - B. The outer boundary of Outer Zone was extended as follows:
 - 1. Route L: From Roscerans Street and Elliott Street to Roscerans Street and Lowell Street;
 - 2. Route O: From Chatsworth Boulevard and Ison Street to Chatsworth Boulevard and Zola Street;
 - 3. Route R: From Roscerans Street and Midway Drive to West Point Loma Boulevard and Midway Drive.
 - C. The twenty-five cent Round Trip fare between La Jolla and the following points discontinued:
 - 1. Chatsworth Boulevard and Zola Street;
 - 2. Del Mar Street and Sunset Cliffs Boulevard; and
 - 3. West Point Loma Boulevard and Montalva Street.

Commission stated:

"A review of this record leads to the conclusion that it is in the public interest to accept the company's offer as an initial step toward reducing rates. In doing so, however, it should be definitely understood that the Commission does not consider this a final rate or one that should rest for any period of time, but rather the matter should be continued for further taking of testimony as soon as the necessary studies can be made. To this end, the Commission's staff will be instructed to proceed with their studies in cooperation with the city and the company, with the objective of providing the public adequate service at the lowest reasonable rates under prevailing conditions."

In keeping with these instructions the Commission's engineers have studied the operating results of this carrier subsequent to the time the reduced fares were put into effect. In addition to studying the operating results, the Commission's engineers have held conferences with the city representatives in the various cities served by this carrier. These conferences included a discussion of the matter of service as well as rates.

On March 21, 1946, the San Diego Electric Railway Company filed its petition requesting the Commission to reopen the proceeding in Case No. 4709 for the purpose of taking testimony to support the granting of its request to put into effect certain increases in its fare structure. (2) In its petition the company alleged that revenue had declined from a level of approximately \$8,710,000 per year just before the close of the war with Japan on August 14, 1945 to a current level of approximately \$6,480,000 with a continuing downward trend. The petition further alleged that it had proven impossible for petitioner to reduce operating expenses in proportion to the reduction in revenues with the result that in the month of January 1946 petitioner sustained an operating loss of \$4,340.

(2) Applicant requested "that it be granted reasonable partial relief.....by restoration of the price of applicant's token to 7½ cents (4 for 30 cents)....."

On May 15, 1946 the company filed a supplement to its petition of March 21, 1946 wherein authority is requested to establish a somewhat different fare schedule than was outlined in the original petition. (3) In this supplemental petition it was alleged that the company was faced with a continuing decline in revenue and anticipated heavy increases in wages in that its labor contracts with its street car and bus operators and with its maintenance employees would expire on May 31 and July 31 respectively. Negotiations then underway indicated heavy increases in wages and expensive changes in working conditions.

Further public hearings were held in this proceeding before Commissioner Clark and Examiner Hunter at San Diego on June 13 and 14, 1946, the matter was taken under submission and it is now ready for final determination.

At the hearing on June 13, 1946 petitioner introduced its Exhibit No. 5 which purports to show an analysis of its recent operating results, together with an estimate of the revenue that would obtain under five different fare structures. (4) Applicant stated that the proposed fares and estimates of revenues and expenses shown in this exhibit were to be considered as a substitute for the estimates shown and fare changes proposed in the supplemental petition filed on May 15, 1946, referred to above.

- (3) a. Increase the price of token to 8-1/3 cents.
 b. Abolish round-trip tickets to Zone 3.
 c. Add 5 cents to the price of all other round-trip tickets.

(4)

(1)	(2)	(3)	(4)	(5)
Present	Restoration	Establish	Add 5 cents to all	Add 5 cents to all
Fares	of 7 1/2 cents	Token	Other R. T. Tickets	Other R. T. Tickets,
	Token	8-1/3	cents	Add 25 cents to
		cents		Price of all Weekly
				Passes

\$5,566,500

\$5,799,213

\$5,953,806

\$6,158,462

\$6,446,462

The following statement shows in detail the company's present and proposed fare structure as set forth in its Exhibit No. 10.

	<u>Present Fares</u>	<u>Proposed Fares</u>
TOKEN FARE:	4 Tokens - 25¢ (6-1/4¢ each)	3 Tokens - 25¢ (8-1/3¢ each)
ROUND TRIP FARES:		
Zones 1 to 3	\$.20	Cancel*
Zones 1 to 4	.25	\$.30
Zones 1 to 5	.35	.40
Zones 1 to 6	.45	.50
Zones 1 to 7	.55	.60
WEEKLY PASS FARES:		
Zones 1 and 2	\$ 1.00	\$ 1.25
Zones 1 to 3	1.25	1.50
Zones 1 to 4	1.50	1.75
Zones 1 to 6	1.75	2.00
Zones 1 to 7	2.25	2.50

* Regular fares of \$.15 or \$.05 and one token for one-way fares will apply.

Petitioner pointed out that its negotiations with its street car and bus operators had terminated in an agreement for a new wage contract which would substantially increase its operating expense effective June 1, 1946. It was further pointed out that because of the early expiration date of the labor contract with the maintenance employees and the company's policy to keep wages of all other employees on a comparable level, the ultimate additional annual cost of wages would be \$519,973 based on a revenue of \$5,539,000 (page 14 Ex. No. 5).

Petitioner plans to make certain changes in its method of operation by substituting motor coach for rail operation on certain of its lines. Exhibit No. 12 shows that it proposes to abandon 15-1/2 miles of equivalent single track lines, representing one-fourth of its present mileage, and substitute bus service thereon. Petitioner also discloses its plan to acquire 67 new buses to be placed in service during the period June 1946 and February 1947 as follows:

17 in June 1946
12 in September 1946
24 in November 1946
14 in February 1947

Petitioner also contemplates replacing the present rail-ferry-rail service between San Diego and Coronado, which now involves two transfers, with a direct bus service. Under this proposal buses would be transported across the channel on the existing ferry and the passengers would be accorded a continuous trip to point of destination without the necessity of transfer.

Rate base was estimated by the company's witness at \$3,339,000 and by the Commission's staff at \$3,571,362. The variance between the two estimates results from the different disposition of the undepreciated balance remaining of the trackage to be abandoned. The company proposes to amortize this amount over a three-year period while the Commission's staff included it in rate base with a corresponding increase in depreciation expense.

During the hearing it developed that the amount shown for depreciation expense in the company's Exhibit No. 5 (item 7 p. 2) should be reduced in an amount of approximately \$70,000.

The Commission's staff introduced three exhibits numbered 7, 8, and 8-A. Exhibit No. 7 dealt with the comparative balance sheets and income statements of the San Diego Electric Railway Company for the period January 1, 1938, to April 30, 1946, inclusive. Exhibits Nos. 8 and 8-A show the operating results under the prevailing fare structure from January 1, 1945, to and including April 30, 1946, and the estimated results that would obtain if the fares proposed by the company, exclusive of any increase in weekly passes, were put into effect.

In addition the Commission's witness estimated the results that would obtain if the weekly passes were uniformly increased, either in the amount of ten cents or twenty-five cents, at \$58,800 or \$133,000 respectively. These estimates represent the amount to be added to net income after giving effect to all taxes and reduction in expense resulting from diminution in traffic. The following tabulation shows a comparison between the engineering estimates presented by the

company with those of the Commission's staff.

	<u>Commission Staff's Estimate</u>	<u>Company Estimate</u>
OPERATING REVENUE (a)	\$ 6,210,050	\$ 6,158,462
OPERATING EXPENSES	4,415,700	4,626,727
Increase in wages	513,010	519,973
Depreciation Expense	582,500	582,437
Retirement Cars & Buses - Acct. 41	26,500	27,374
Write off due to bus substitution	-	77,627
Track removal	-	25,000
Add to Injuries & Damages Acct. 92	25,000	-
Operating Taxes	424,197	406,419
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TOTAL EXPENSE BEFORE INCOME TAXES	\$ 5,986,907	\$6,265,557
OPERATING INCOME BEFORE INCOME TAXES	\$ 223,143	(\$ 107,095)
Income Taxes	89,198	-
Net Income (b)	133,645	(107,095)
Rate Base	3,571,362	3,399,000
Rate of Return	3.7%	-
 <u>EFFECT OF A 10-CENT INCREASE IN WEEKLY PASSES</u>		
Not Addition to Revenue after diminution and Taxes	\$ 58,800	(c)
Not Income	192,445	
Rate of Return	5.4%	
 <u>EFFECT OF A 25¢ INCREASE IN WEEKLY PASSES</u>		
Not Addition to Revenue after Diminution and Taxes	\$ 133,000	\$ 138,240
Not Income	266,645	31,145
Rate of Return	7.5%	0.92%

(Red Figures)

- (a) Revenue that will obtain if price of token is increased to 8-1/3¢; Round trip ticket to Zone 3 is abolished; and 5¢ added to other round trip tickets.
- (b) Based on fare changes shown in footnote (a) above.
- (c) Not shown by company.

In its Exhibit No. 6 the company set up the differences in estimated operating costs between those submitted in their estimate and those presented by the Commission's staff. These differences were pointed out by accounts as follows:

Acct. No.	Account	Actual Expenditures 1945*	Company Estimate	Commission's Staff's Estimate	Company Estimate Higher By
8	Track and Roadway Labor	\$ 46,475	\$ 45,051	\$ 42,000	\$ 3,051
10	Paving	62,292	15,648	12,000	3,648
11	Cleaning and Sanding Track	19,353	15,616	13,500	2,116
22	Distribution System	21,928	29,778	20,000	9,778
30	Passenger and Combination Cars	1,125,074	833,593	815,800	37,794
33	Electrical Equipment of Cars	76,359	44,399	42,250	2,149
37	Shop Expense	59,166	57,738	52,900	4,838
63	Supt. of Transportation	410,362	276,000	254,000	22,000
70	Carhouse Employees	248,596	226,270	196,400	29,870
92	Injuries and Damages	263,283	237,500	175,000	62,500
	Total	\$2,332,888	\$1,801,594	\$1,623,850	\$177,744

* Inserted here for reference - taken from Exhibit No. 8.

In support of its higher estimates of track and roadway maintenance, the company placed a number of its supervisors and operating engineers on the stand.

The estimates of the Commission's staff for ways and structures, accounts Nos. 8, 10, and 22, were based on a continuance of the present scale of maintenance, adjusted to reflect the lessened mileage. Company witnesses testified that the poor condition of the remaining trackage and overhead system would require the retention of the full complement of present crews if a satisfactory service were to be maintained.

The estimates of the cost of operating cars and buses included in accounts 30, 33, 37, and 70 varied because of the difference in the estimates of mileage to be operated. The estimate of the Commission's staff was based on a diminution of traffic while that of the company was based on revenue estimates which did not take into consideration any allowance for deflection of traffic based on increased fares.

The general manager of the company maintained that the amount now being expended for superintendence of transportation, account No. 63, could not be reduced regardless of any decrease in traffic.

The largest difference in the estimates of expenses was in the allowance for the cost of injuries and damages. The claims agent of the company, in support of his estimate, listed a substantial backlog of unsettled claims not yet reflected in the books of the company, and pointed out the rising scale of awards being made by judges and juries. In view of this showing the Commission's witness revised his allowance for account No. 92 - Injuries and Damages, by increasing it in the amount of \$25,000.

The company included \$130,000 in its estimate of expense, the cost of amortization of the undepreciated balance of tracks and equipment to be abandoned in the substitution of buses for rail operation. The Commission's witness testified that all except \$26,500 of this amount was already allowed in its revision of depreciation allowance and rate base.

In support of applicant's request for an adjustment of its fare structure its attorney presented exhibit No. 14 wherein it is alleged in effect that disregarding the company's showing and employing only the Commission staff's exhibit and testimony, the company would earn above seven per cent on the depreciated rate base.

If we exclude the difference between the company and the Commission's staff in estimating accounts 30, 33, 37, and 70, and the estimate of amortization costs, there remains slightly less than \$105,000 difference in the two estimates of expense. If the company's contentions were granted in full, the resultant rate of return on the depreciated rate base of \$3,571,362 would be 2.4 per cent if the price of weekly passes were increased ten cents, and 5.7 per cent if the price of weekly passes were increased twenty-five cents. Under the estimates presented by the Commission's staff these rates of return would be 5.4 per cent and 7.5 per cent, respectively.

The only protest to the granting of this application was registered by the city attorneys of Chula Vista, National City, and Coronado. This opposition consisted of verbal statements by the city attorneys protesting the granting of this increase in fares without offering any support of their position.

Representatives of the Office of Price Administration participated in these proceedings to the extent of cross-examining witnesses but offering no direct testimony. At the conclusion the attorney for this Federal body stated in effect that while the Office of Price Administration did not oppose the granting of any increase in fare to this carrier that the California Railroad Commission would find to be just and reasonable, nevertheless he desired to direct the attention of the Commission to the fact that its purpose in participating in these proceedings was to keep fares to the lowest level that could be reasonably justified and urged the Commission to resolve all doubtful items in favor of the riding public.

Upon this record the Commission finds:

1. That the present fare structure of the petitioner is not just, reasonable, or compensatory.
2. That it is the opinion of this Commission that the increased fares proposed by the company in its Exhibit No. 5, with the exception that the price of weekly passes be increased ten cents instead of twenty-five cents requested, will produce sufficient revenue to enable the company to earn a reasonable return.

O R D E R

A public hearing having been held, the matter having been submitted, and the Commission being fully apprised;

IT IS HEREBY ORDERED that the San Diego Electric Railway Company is authorized to:

- a. Increase the price of the token from four for twenty-five cents to three for twenty-five cents.
- b. Abolish all round trip fares between zones one and three.
- c. Increase all other round trip fares by five cents.
- d. Increase the price of all weekly passes by ten cents.

In all other respects its present tariff is to remain unchanged.

Applicant shall file in triplicate and concurrently make effective within thirty (30) days from the date of this order and 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 Tariff Circular No. 2, establishing the increased fares herein authorized.

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.

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

Dated at San Francisco, California, this 9th day of July, 1946.

Harold C. Quinn
James J. Galvin
Francis D. Case
John A. Powell
Harold K. Hill
COMMISSIONERS