

Decision No. 39437

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of  
 KEY SYSTEM, a corporation, for an  
 order granting permission to increase  
 and adjust passenger rates and fares  
 for the transportation of persons  
 between points in the Counties of  
 Alameda, Contra Costa, and the City  
 and County of San Francisco, in the  
 State of California.

**ORIGINAL**

Application No. 27595

DONAHUE, RICHARDS & HAMLIN, by FRANK S. RICHARDS and  
 ORLANDO J. BOWMAN, for Applicant; JOHN J. O'TOOLE,  
 City Attorney, DION R. HOLM, Assistant City Attorney  
 and PAUL L. BECK, Chief Valuation and Rate Engineer,  
 for City and County of San Francisco; CHARLES  
 SCHWIMMENBERG, City Manager, F. B. FERNHOFF, City  
 Attorney and ARCHER BOWDEN, Assistant City Attorney,  
 for City of Oakland, interested party; THOMAS M. CARLSON,  
 City Attorney and JOHN I. PIERCE, Assistant City Attorney,  
 for City of Richmond; MYRON D. ALEXANDER and C. O. BURGIN  
 and BORRIS von DEHN, for Office of Price Administration,  
 Protestant; FRED C. HUTCHINSON, City Attorney and ROBERT  
 T. ANDERSON, Assistant City Attorney for City of Berkeley;  
 STANLEY D. WHITNEY, City Attorney and JOHN F. HANSON, JR.,  
 Deputy City Attorney, for City of Alameda; CHARLES F.  
 WHITMORE, General Manager, for Albany Chamber of Commerce;  
 A. E. BROWN, for Carmen's Union, representing two thousand  
 employees of Key System in favor of the application; AL  
 MITCHELL, for East Bay Metropolitan Area Council; GEORGE  
 ROUILLER, for shepmen and mechanics of Key System endorsing  
 the application; A. E. BROWN, for Alameda Central Labor  
 Council, endorsing application; W. SHERLOCK, Chairman  
 East Oakland Improvement League, protestant; EDGAR S.  
 HURLEY, for International Brotherhood of Electrical Workers,  
 Local No. 50, in favor of the application; P. W. BARNARD,  
 for Alameda Citizens Transportation Association, protestant;  
 GEORGE R. GLAVINOVICH, City Attorney, for City of Albany;  
 MRS. KATHIE ZAHN, for citizens of Albany.

HULS, Commissioner:

O P I N I O N

In this application, as amended, Key System seeks authority  
 to increase fares on both its local and interurban operation in

accordance with the table shown in the margin. (1) Hearings were held on this matter in San Francisco on the 28th and 29th of August, 1946.

Applicant provides local transportation to the East Bay Cities in the area extending from Hayward, on the south, to Richmond, on the north, serving ten municipalities as well as certain sections of the unincorporated portion of Alameda County. In general, this local service area is 25 miles in length and 3-1/2 miles in width. In addition to the local service applicant conducts an interurban operation between the East Bay Cities and San Francisco via the San Francisco-Oakland Bay Bridge. In providing this local and interurban transportation applicant operates electric trains, street cars and motor coaches.

Key System is through stock ownership controlled by Railway Equipment and Realty Company. The latter owns most of the equipment and some other properties used by Key System in its operations. Testimony submitted in this proceeding is predicated on the assumption

(1)

Present and Proposed Local and Interurban Fares

| Fare   | From         | To           |
|--|--------------|--------------|
| <u>Local: (Per Zone)*</u>                    |              |              |
| Adult  | 10¢ or 7/50¢ | 10¢ or 4/35¢ |
| School                                       | 29/\$1.00    | 20/\$1.00    |
| <u>Interurban:</u>                           |              |              |
| <u>Regular:</u>                              |              |              |
| Adult, one-way                               | \$ .20       | \$ .25       |
| Child, " "                                   | .10          | .15          |
| Monthly Commutation                          | 6.50         | 8.50         |
| <u>Richmond-Hayward &amp; San Francisco:</u> |              |              |
| Adult, one-way                               | .30          | .35          |
| Monthly Commutation                          | 7.75         | 9.75         |
| <u>Yerba Buena Island and San Francisco:</u> |              |              |
| Armed Forces, one-way                        | .05          | .10          |
| Government Employees, one-way                | .07          | .10          |
| Civilians, one-way                           | .10          | .15          |
| <u>Yerba Buena Island and Oakland:</u>       |              |              |
| Armed Forces, one-way                        | .10          | .15          |
| Government Employees, one-way                | .12          | .15          |
| Civilians, one-way                           | .15          | .20          |
| California Toll Bridge Employees:            | .10          | .10          |

\* The East Bay Area is divided into 3 fare zones.

that the properties of the two corporations are owned by a single entity. Inter-company accounts are therefore eliminated. The acquisition of new properties used by the Key System in its service is being financed by Railway Equipment and Realty Company.

The president of the Key System testified that two developments caused the company to ask for an increase in rates. The first is the necessity to increase the service by adding coach lines in order to provide a higher standard of service and relieve the crowded condition of the equipment, and the second is a substantial increase in wages and cost of materials and supplies.

The record shows that in May of this year the total car and coach miles were 20.4% greater than in May of last year, while in June the car and coach miles were 17.9% greater than in June, 1945, and in July - 23.9% greater than in July, 1945. To improve the service of the company its board of directors has authorized an improvement program involving an expenditure of about \$12,414,000 during 1946, 1947, and 1948, segregated as follows:

| <u>Item</u>                         | <u>1946</u>      | <u>1947</u>      | <u>1948</u>      |
|-------------------------------------|------------------|------------------|------------------|
| 450 new motor coaches               | \$2,215,000      | \$2,400,000      | \$2,400,000      |
| 2 new articulated<br>3-unit trains  | -                | 300,000          | 300,000          |
| New shops and other<br>improvements | <u>1,080,000</u> | <u>2,214,000</u> | <u>1,475,000</u> |
| Total                               | \$3,295,000      | \$4,914,000      | \$4,175,000      |

The company expects the delivery of 150 motor coaches in 1946, 150 in 1947, and 150 in 1948. About 80 of the new motor coaches will replace coaches now in service, while the others will be used to replace street cars and to give added service over present or new motor coach routes. It is the intention of the company to convert, by December 31, 1948, all of its local street car operations to motor coach operations, and its improvement program is

designed to that end. This application, however, does not include any request to abandon street car service, and the order herein should not be construed to authorize the abandonment of any street car service.

Exhibit No. 12 submitted by the Commission's staff contains a number of recommendations looking toward an improvement of the service through

- (1) The reconstruction of certain sections of the inter-urban rail lines with improved drainage facilities;
- (2) The placing into service of additional motor vehicle equipment to transport the traffic during morning and evening peak hours of travel;
- (3) The rerouting of the "L" motor coach line and the reduction of local headway from 12 minutes to 10 minutes;
- (4) The replacing of certain rail operations with rubber-tired vehicles;
- (5) The transfer of traffic from motor coach over the San Francisco-Oakland Bay Bridge to rail through the use of a rail-bus transfer to be constructed in the vicinity of 40th Street and San Pablo Avenue;
- (6) The reduction of operating expenses through the elimination of dead-head mileage.

The record shows that wage increases effective June 1, 1946 will increase the company's operating expenses by \$1,691,000 per annum and that substantial increases in the cost of materials and supplies have taken place since January 1, 1946, and that others are imminent, which will result in increased annual operating expenses of about \$150,000.

The following summary is taken from exhibits presented by applicant and the Commission's staff and deals with the results of the combined local and interurban operations under applicant's present and proposed fare structures.

ESTIMATED RESULTS OF OPERATION  
12 Months Period Ending July 31, 1947

| Item                       | Company      |              | Commission Staff |              |
|----------------------------|--------------|--------------|------------------|--------------|
|                            | Exhibit 3    |              | Exhibit 11       |              |
|                            | At Present   | At Proposed  | At Present       | At Proposed  |
|                            | Fares        | Fares        | Fares            | Fares        |
| Operating Revenues         | \$14,983,280 | \$17,544,070 | \$15,151,150     | \$17,652,730 |
| <u>Operating Expenses</u>  |              |              |                  |              |
| Way and structures         | 755,504      | 755,504      | 676,830          | 676,830      |
| Equipment                  | 2,898,268    | 2,898,268    | 2,897,770        | 2,897,770    |
| Power                      | 1,536,415    | 1,536,415    | 1,485,100        | 1,485,100    |
| Conducting transportation  | 5,506,230    | 5,506,230    | 5,473,390        | 5,473,390    |
| Traffic                    | 113,831      | 113,831      | 109,220          | 109,220      |
| General and miscellaneous  | 2,158,415    | 2,158,415    | 2,123,820        | 2,123,820    |
| Subtotal                   | 12,968,663   | 12,968,663   | 12,766,130       | 12,766,130   |
| Increase in wages          | 1,736,148    | 1,736,148    | 1,691,070        | 1,691,070    |
| Increase in material costs | 144,417      | 144,417      | 145,290          | 145,290      |
| Depreciation expense       | 1,303,015    | 1,303,015    | 1,216,770        | 1,216,770    |
| Operating taxes            | 702,859      | 702,859      | 639,420          | 645,090      |
| Total operating expenses   | 16,855,102   | 16,855,102   | 16,458,680       | 16,464,350   |
| Amortization costs         | 618,135      | 618,135      | 175,000*         | 175,000*     |
| Total                      | 17,473,237   | 17,473,237   | 16,633,680       | 16,639,350   |
| Net before income taxes    | (2,489,957)  | 70,835       | (1,482,530)      | 1,013,380    |
| Income taxes               | 25           | 28,410       | -                | 476,640      |
| Net operating income       | (2,489,932)  | 42,425       | (1,482,530)      | 606,740      |
| Average rate base          | 14,530,000   | 14,530,000   | 15,747,600       | 13,747,600   |
| Rate of return             | -            | 0.29%        | -                | 4.41%        |

(Red Figure)

\* Exhibit No. 11 also shows that if no allowance is made for amortization the net operating income would be \$711,740, which is equivalent to a return of 5.18%.

The difference in the two estimates shown above results from different assumptions as to revenue and expenses for future operation within the period under consideration. The largest items of difference are to be found in the estimates covering revenue, depreciation and amortization. The largest single item of difference is that of amortization. Applicant assumes that its local street car operations will be converted to motor coach by the end of 1948 and proposes to amortize the undepreciated investment in these facilities of \$679,450 in eight years and \$2,666,020 over a period of five years, amounting to an annual charge of \$618,135.

As contrasted to this plan the Commission's staff treated this item under two different methods, one spreading an allowance of \$2,625,000 for amortization over a period of 15 years, which amounts to an annual charge of \$175,000, and in another estimate no allowance is made for such amortization.

With respect to the interurban operation, Exhibit No. 11 shows that if the present fares are continued in effect during the 12-month period ending July 31, 1947, the company will sustain an operating loss of \$1,204,070. On the other hand, if applicant's proposed fares are employed the estimated net revenue will amount to \$147,230, which is equivalent to a rate of return of 2.21 per cent on an estimated rate base of \$6,662,200.

Turning to the local operation, Exhibit No. 11 shows the estimated net operating income for the 12-month period ending July 31, 1947, under present fares, exclusive of any allowance for amortization, to be a loss of \$103,460. By employing the fares proposed by applicant the estimated net operating income, without any allowance for amortization, is estimated to be \$504,510. This is equivalent to a rate of return of 7.97 per cent on an estimated rate base of \$7,085,400. If an allowance for amortization is made to the extent of \$175,000 per year as part of operating expenses, the loss with operations under present fares would be \$278,460, and under the fare structure proposed by the company the estimated net revenue would amount to \$459,700, which is equivalent to a rate of return of 6.49 per cent.

This presents the issues as to whether any amount should be included in operating expenses to amortize costs of equipment and street railway tracks and appurtenances and the cost of removing such tracks and facilities and repaving streets. The cost of removing tracks and repaving is estimated at \$1,280,000, while the estimates of the undepreciated cost of tracks and appurtenances

and equipment vary from about \$1,345,000 to \$1,065,470. Though applicant has announced its intention to substitute motor coaches for street railway service, it is not in this application asking permission to abandon any street railway service. No allowance, in my opinion, should be made at this time to amortize any of the above amounts.

The Commission's staff presented the results of studies employing different combinations of local and interurban fare structures which included those proposed by applicant. The estimated revenue and rate of return on an assumed rate base of \$13,747,600 are shown for the respective combinations in the following tabulation. The transbay fares selected for this study are taken from Exhibit No. 11 and are designated as Plans 1, 2, and 3 as shown below.

Transbay Fares:

- Plan 1. Proposed by Company: Regular Bridge, one-way cash adult 25¢, one-way child 15¢, monthly commutation \$8.50; Richmond-Hayward and San Francisco, one-way cash adult 35¢, monthly commute \$9.75; Yerba Buena and San Francisco, armed forces, one-way 10¢, government employees, one-way 10¢, civilians, one-way 15¢; Yerba Buena and Oakland, armed forces, one-way 15¢, government employees, one-way 15¢, civilians one-way 20¢; Calif. Toll Bridge Employees, 10¢ one-way.
- Plan 2. Regular Bridge, 5-day, Monday through Friday, commutation \$8.00, unlimited commutation \$9.00; Richmond-Hayward, 5-day, Monday through Friday, commutation \$9.00, unlimited commutation \$10.00, child one-way 20¢. All other fares as proposed by company.
- Plan 3. Same as No. 2 except that all commutation rates are increased \$.50.

| Transbay Fares:   | Total Revenue | Net Income | Rate of Return # |
|---|---------------|------------|------------------|
| <u>Local Fare 10¢ or 4/35¢, School Ticket 20/\$1 (Company Proposal)</u> |               |            |                  |
| Plan 1  | \$17,503,630  | \$711,740  | 5.18%            |
| " 2   | 17,504,220    | 712,091    | 5.18             |
| " 3   | 17,655,090    | 801,963    | 5.83             |
| <u>Local Fare 10¢ or 3/25¢, School Ticket 20/\$1</u>                    |               |            |                  |
| Plan 1  | 16,931,710    | 371,053    | 2.70             |
| " 2   | 16,932,300    | 371,404    | 2.70             |
| " 3   | 17,083,170    | 461,276    | 3.36             |
| <u>Local Fare 10¢ or 6/50¢, School Ticket 20/\$1</u>                    |               |            |                  |
| Plan 1  | 17,114,720    | 480,070    | 3.49             |
| " 2   | 17,115,310    | 480,422    | 3.49             |
| " 3   | 17,266,180    | 570,293    | 4.15             |
| <u>Local Fare 10¢ with no tokens, School Ticket 20/\$1</u>              |               |            |                  |
| Plan 1  | 18,102,180    | 1,068,231  | 7.77             |
| " 2   | 18,102,770    | 1,068,642  | 7.77             |
| " 3   | 18,253,640    | 1,158,513  | 8.43             |
| " 4*  | 17,951,900    | 981,770    | 6.68             |

# Without any allowance for amortization costs. If amortization of equipment and rail facilities are written off on a 15-year basis (or at \$175,000 per year) the above rates of return would be decreased by 0.77%.

\* Same as Plan 2 except that all commutation rates are decreased by \$.50.

No showing was made opposing the granting of some relief to applicant in the form of an increase in fares. Representatives of several cities and civic organizations, however, take the position that if an increase in fare is granted it should be accompanied by an improvement of service. Applicant's president testified that Key System had received or will receive during August and September 50 new motor coaches. Of these 39 will be substituted for street cars on the No. 6 and "K" lines, (2) and 11 will be used in supplemental service on existing coach lines. He further testified that the

(2)

Substitution authorized by Decision No. 39403, September 10, 1946.

1944.



White Motor Company had promised to ship one hundred coaches having a seating capacity of forty-five passengers. Delivery will begin in October and will be completed in December. Of these 50 will be used for supplemental service and 50 will be used for the retirement of old worn-out equipment. The Alameda service will be supplemented by the addition of 12 to 15 new coaches. In reply to a request for new equipment in the Albany service, particularly lines No. 85 and 88 counsel for applicant stated:

"I would like to say this, and I think I express the views of the Company, and that is this, that Mr. Haugh and the Key System are vitally interested in every part of the territory served, and they are going to put busses where they are most needed as quick as they get them, and their engineers simply will have to determine where that is, probably in conjunction with the engineers of the Railroad Commission. But when they arrive they will be put in the place where they are needed the most, that will help the greatest number of people. We cannot say now, of course, whether they will go here, there, or some other place, but when they come they will be put into service because it is Mr. Haugh's motto that the best public relation is good service. I am sure he is going to carry that out."

At this time the Key System's commute fare is based upon a use of one round trip for each calendar day of the month. There is a growing demand for a 5-day a week commute due to restricted hours of employment. This matter of providing a commute fare based upon the use of five days a week is one which justifies serious consideration. In fact, it is the subject of a complaint filed with the Commission, Case No. 4844, upon which an order is being issued concurrently with this decision. In that order the Commission is accepting the company's commitment to the effect that, as soon as the financial results of operation under increased fares authorized herein are known and applicant has had an opportunity to analyze the problem, it will offer to the public a commute fare based upon a five day a week use.

Upon the record we find that the revenue applicant receives under its present fares for its local and interurban operations is not sufficient to meet the cost of providing the service with the increased cost of labor and materials, that an increase in applicant's fares to the extent indicated in the following order is justified, that the granting of authority to applicant to increase its fares implies a strict adherence to its pledge of betterment of service, and that applicant shall, until otherwise directed, file monthly reports showing its expenditures and those of Railway Equipment and Realty Company for the improvement of its service and an explanation of the improvements. The following order is recommended.

ORDER

Key System having filed an application requesting authority to increase its fares, public hearing having been held, the Commission being apprised of the facts and the matter being under submission and ready for decision,

IT IS ORDERED that Key System be and is hereby authorized to establish, effective on or after October 1, 1946, in accordance with the rules of the Commission, upon not less than three days' notice to the Commission and the public, local and interurban fares as follows:

Local

Adult Fare  
School tickets

Zone Fare

10¢ or 4 tokens for 35¢  
20 rides for \$1.00

Interurban

Regular Bridge service between East Bay and San Francisco

|                     |        |
|---------------------|--------|
| Adult, one-way      | \$ .25 |
| Child, " "          | .15    |
| Monthly commutation | 8.50   |

Between Richmond-Hayward and San Francisco

|                     |        |
|---------------------|--------|
| Adult, one-way      | \$ .35 |
| Child, " "          | .20    |
| Monthly commutation | 9.75   |

Between Yerba Buena Island and San Francisco

|                               |        |
|-------------------------------|--------|
| Armed Forces, one-way         | \$ .10 |
| Government employees, one-way | .10    |
| Civilians, one-way            | .15    |

Between Yerba Buena Island and Oakland

|                               |        |
|-------------------------------|--------|
| Armed Forces, one-way         | \$ .15 |
| Government employees, one-way | .15    |
| Civilians, one-way            | .20    |

All other fares and regulations shall remain unchanged.

IT IS FURTHER ORDERED that the Key System shall, until otherwise directed, file monthly reports showing its expenditures and those of Railway Equipment and Realty Company for the improvement of its service and an explanation of the improvements.

IT IS FURTHER ORDERED that this authority herein granted shall be void unless the fares authorized are published, filed and made effective within sixty (60) days from the effective date of this order.

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.

For all other purposes the effective date of this order shall be October 1, 1946.

Dated at San Francisco, California, this 24<sup>th</sup> day of September, 1946.

Harold P. Hull  
Justice F. Quinn  
John P. Lowell  
A. B. ...  
 COMMISSIONERS