

ORIGINAL

Decision No. 41150

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the LOS ANGELES)
 TRANSIT LINES, a corporation, for an order or orders)
 granting permission to increase and adjust, and place) First Supplemental
 into effect, certain fares for the transportation of) Application No. 27487
 passengers on its lines and on lines of Los Angeles)
 Motor Coach Lines.)

Investigation on the Commission's own motion into)
 reasonableness and adequacy of rates, service, opera-)
 tions and facilities of PACIFIC ELECTRIC RAILWAY, LOS) Case No. 4843
 ANGELES TRANSIT LINES, and LOS ANGELES MOTOR COACH LINES.)

APPEARANCES as shown in Appendix "B"

SECOND INTERIM OPINION AND ORDER

In the above-entitled application Los Angeles Transit Lines, a corporation, seeks authority to increase its fare structure. The Commission has heretofore issued one decision on this application. (1)

In this First Supplemental Application, filed June 23, 1947, it is alleged that further increases in fares are necessary due to increased wages, taxes, and costs of materials.

The Commission, on July 31, 1946, instituted an investigation on its own motion, Case No. 4843, inquiring into the rates, services, operations, and facilities of the Los Angeles Transit Lines and the Pacific Electric Railway Company, as well as of the joint operations conducted by said companies under the name of Los Angeles Motor Coach Lines. (2)

Hearings were held in the above-entitled proceedings at Los Angeles during the months of October and November, 1947. At the hearing October 1, 1947, it was stipulated by all parties in interest and so ordered that those portions of the record adduced at the hearings referred to above in both Applications Nos. 27487 and 27466, as well as Case No. 4843, would be considered as evidence in each of the respective applications where applicable.

(1) Under Decision No. 39303, dated July 31, 1946, fare increases for the Los Angeles inner zone were granted on an interim basis from 7 cents to 10 cents, with three tokens for 25 cents. Other increases sought were denied.

(2) For convenience in this opinion in the two above-entitled proceedings, the Los Angeles Transit Lines will be referred to as Transit Lines, Pacific Electric Railway Company as Pacific Electric, and the Los Angeles Motor Coach Lines as Coach Lines.

In its first supplement to the application, as amended October 1, 1947,

Transit Lines seeks authority to:

- (a) Change certain zone limits.
- (b) Increase the token rate from 3 for 25 cents to 4 for 35 cents.
- (c) Eliminate the \$1.25 and \$1.50 weekly passes.
- (d) Increase school fares.
- (e) Put into effect universal transfer privileges with the Coach Lines and Pacific Electric. These transfer privileges to be restricted to payment of the 10-cent cash fare in the inner zone.
- (f) Adjust present interzone fares by increasing same to the next highest zero or five cents.

No increase is sought in the inner zone of the Coach Lines.

The Commission's staff presented the results of service studies as Exhibits Nos. 48 and 49 on the Transit Lines and the Coach Lines, respectively. These exhibits indicate that on the basis of suggested loading standards⁽³⁾ and volume of traffic at the time checks were made, 29 additional street cars, one additional trolley coach and 16 motor coaches would be required on the Transit Lines and three additional motor coaches on the Coach Lines. The record shows that since the time these studies were made, some additional equipment has been placed in service on both systems and additional schedules provided. The standard of service suggested by the staff was identical for both operations. It appears that the loading standards recommended in Exhibits Nos. 48 and 49 are reasonable and should be observed by both carriers.

The estimated results of operations, including the Transit Lines' share of the Coach Lines, under the present fare structure, under the fare structure proposed by applicant, and under others suggested by the City of Los Angeles and the Commission's staff for the year ending August 31, 1946, were presented as Exhibits Nos. 37, 40 and 50. The following summary and comparison of the results of operations, inclusive of applicant's share of Coach Lines, are compiled from these exhibits.

(3) Loading standards shown in Exhibit No. 48, page 3. The same loading standards are recommended for similar equipment in Exhibit No. 49.

Loading Standards

In making the analysis of additional service, certain loading standards were used, as follows:

Off-peak periods

A seat per passenger at the maximum load point for all types of equipment.

Peak periods

			<u>Streetcars</u>		
<u>Type</u>	<u>Seats</u>	<u>Load Std.</u>	<u>Type</u>	<u>Seats</u>	<u>Load Std.</u>
H-4	48	85	B-1	44	75
H-3	52	75	B-2	44	75
PCC	61	85	B	48	75
			F	56	75

(Cont'd on p. 3)

1. Under Present Fares ⁽⁴⁾

TABLE I

(Expressed in Thousands of Dollars)

I t e m	: Applicant's : Ex. No. 37	: City of : Los Angeles : : Ex. No. 40	: P.U.C. Staff : Ex. No. 50
Revenue	\$ 25,484	\$ 25,785	\$ 24,572
Expense:			
Oper. & Maint.	20,142	20,277	18,970
Depreciation	2,257	2,446	2,459
Amortization	84	-	84
Taxes	<u>1,781</u>	<u>1,795</u>	<u>1,646</u>
Total	\$ 24,264	\$ 24,518	\$ 23,159
Not before Income Taxes	\$ 1,220	\$ 1,267	\$ 1,413
Oper. Ratio	95.2%	95.1%	94.2%
Income Taxes	\$ 448	\$ 373	\$ 425
Net Oper. Income	\$ 772	\$ 894	\$ 988
Rate Base	\$ 40,511	\$ 22,904 ^(a) 17,847 ^(b)	\$ 23,133
Rate of Return	1.9%	3.9% ^(a) 5.0% ^(b)	4.3%

- (a) Historical rate base and corresponding return.
- (b) So called "prudent investment" rate base and corresponding return.

(3) Cont'd

<u>Motor Coach</u>		<u>Trolley Coach</u>	
<u>Seats</u>	<u>Load Std.</u>	<u>Seats</u>	<u>Load Std.</u>
40	52	44	68
44	60		
45	60		

(4) Adult Inner Zone:

Transit Lines 10¢ cash, tokens 3 for 25¢ together with a \$1.25 weekly pass.

Coach Lines 10¢ cash.

Weekly pass good on both systems within the inner zone \$1.50.

Universal transfer within inner zone issued only on 10¢ cash fare.

(5)

2. Under Fare Structure Proposed by ApplicantTABLE II

(Expressed in Thousands of Dollars)

I t e m	Applicant's Ex. No. 37	P.U.C. Staff Ex. No. 50
Revenue	\$ 27,581	\$ 26,636
Expense:		
Oper. & Maint.	20,412	18,942
Depreciation	2,257	2,459
Amortization	84	84
Taxes	1,825	1,685
Total	\$ 24,578	\$ 23,170
Net before Income Taxes	\$ 3,003	\$ 3,466
Oper. Ratio	89.1%	87.0%
Income Taxes	\$ 1,102	\$ 1,239
Net Oper. Income	\$ 1,901	\$ 2,227
Rate Base	\$ 40,511	\$ 23,133
Rate of Return	4.7%	9.6%

(5) Adult Inner Zone:

Increase token rates from 3 for 25¢ to 4 for 35¢ and abolish \$1.25 and \$1.50 weekly passes.

Increase is also sought in school fares.

Some change in zone limits and overlap privileges.

Some increase in interzone fares.

Discontinue commutation tickets.

3. Under Fare Structure suggested by the City of Los Angeles and the Commission's Staff (5)

TABLE III

(Expressed in Thousands of Dollars)

Item	City of Los Angeles Ex. No. 40	P. U. C. Staff Ex. No. 50
Revenue	\$ 26,799	\$ 25,839
Expense:		
Operation & Maintenance	20,353	18,954
Depreciation	2,446	2,460
Amortization	-	84
Taxes	1,812	1,670
Total	<u>\$ 24,611</u>	<u>\$ 23,168</u>
Net before Income Taxes	\$ 2,188	\$ 2,671
Operating Ratio	91.8%	89.7%
Income Taxes	\$ 743	\$ 930
Net Operating Income	\$ 1,445	\$ 1,741
Rate Base	\$ 22,904 (a) 17,847 (b)	\$ 23,133
Rate of Return	6.3% (a) 8.1% (b)	7.5%

(a) Historical rate base and corresponding return.

(b) So-called "prudent investment" rate base and corresponding return.

The estimated revenue shown on Exhibit 50 is based upon the assumption that the rate structure of the Coach Lines will include a token fare at the rate of six for 50¢, which would have the effect of reducing the net revenue approximately \$100,000 as compared to an estimated net revenue under a fare structure based upon a minimum fare of 10¢ cash without the use of tokens. The estimate in Exhibit 50 is also based upon the assumption that the company's plan of changing the zone limits on North Figueroa Street area will be placed into effect, which would have the effect of increasing the Transit Lines annual net revenue by approximately \$33,000 as compared to the estimated net revenue that would be received under the present zone plan in that area. If these two items were

(6) Inner Zone 10¢ cash, 6 tokens for 50¢, with \$1.50 weekly pass, with universal transfer privileges on the payment of a cash or token fare.

eliminated in the estimate of Exhibit No. 50 the estimated net annual income would be increased approximately \$67,000, resulting in a rate of return of 7.8% instead of 7.5% as applied to the P. U. C. Staff Exhibit No. 50.

The Commission's staff also presented for consideration two additional fare structures designated as Case IV and Case V, which differ from applicant's in the following respects:

Case IV, Exhibit No. 50. Same as applicant's except tokens to be sold 6 for 50 cents in lieu of 4 for 35 cents, to apply to traffic on the inner zone of the Transit Lines and Coach Lines and to be subject to universal transfer privileges in the inner zone.

Case V, Exhibit No. 50. Same as applicant's with the retention of a weekly pass to be sold for \$1.50 and good universally within the inner zone. The estimated results of operation under these fare structures are shown to produce rates of return of 7.9 per cent and 8.3 per cent, respectively.

The foregoing Table I shows the operating revenue for the prospective year as estimated by different engineers to be as follows:

Applicant	\$ 25,484,000
City of Los Angeles	25,785,000
Commission's Staff	24,572,000

Applicant assumed a level of traffic of the six months February 1947 to July 1947, inclusive, with a reduction of 1½% to take into account adverse economic trends. The City of Los Angeles estimated that the level of the first six months of 1947 would continue throughout the prospective year. The Commission's staff made a detailed study of trends of the various types of fares as reflected by the records of traffic during the past year and projected each type to determine the probable future volume of traffic and arrived at an average level approximately 5% lower than that obtaining as of August 31, 1947.

The estimates of applicant and the Commission's staff regarding the results of operation under fares proposed by applicant are shown in Table II. The staff's estimate of net income before income tax is \$463,000 more than that of applicant. Revenue estimate of the staff is \$945,000 less than applicant due

principally to the lower level of estimated traffic. The staff estimate of expense is, however, \$1,408,000 lower than that of applicant. This difference comes primarily from the fact that the staff's estimate is less than that of applicant's for operating expenses and maintenance in the amount of \$1,470,000, and in the case of taxes in the amount of \$140,000. With respect to the allowance for depreciation, the staff's estimate is \$202,000 higher than applicant's.

The difference of \$1,470,000 in operating and maintenance expenses can be attributed primarily to the fact that the staff assumed lesser mileage to be operated due to the decline in level of traffic, which accounts for \$400,000 of the difference, and the remaining \$1,000,000 results from the employment of different unit costs. Applicant based its estimate almost entirely on the costs of record for the month of August, 1947. Unit costs developed by the staff were based on consideration of the operating experience during the first nine months of 1947, excluding certain items of deferred maintenance and unusual amounts of student and break-in time. In addition, the staff considered that the cost of repairs to buses, less than one year old, would amount to two cents per mile operated as contrasted with applicant's estimate of three cents. The record shows that 70% of the estimated mileage for the ensuing year will be performed by buses less than three years in service. This situation presents a rather unusual condition in that the percentage of new equipment in service is high with a corresponding low maintenance cost.

The difference in depreciation expense can be attributed almost entirely to the methods used. Applicant employed both sinking fund and straight line methods of depreciation. A 5% sinking fund was applied to long life property and straight line depreciation to the remainder, as contrasted to the straight line method employed throughout by the Commission's staff.

Variation in estimates of operating taxes results from the franchise and pay roll taxes applicable to differences in estimates of revenue and pay roll.

The record shows a material difference in the suggested rate bases as presented by different engineers. The results were approximately as follows:

Presented By	Rate Base	
	Historical Basis:	Other Bases
Applicant Ex. Nos. 32 and 33	\$28,000,000	\$40,500,000 ^(a)
City of Los Angeles Ex. No. 40	22,900,000	17,850,000 ^(b)
Commission's Staff Ex. No. 50	23,133,000	None

(a) Composite of straight line and sinking fund depreciation method.

(b) So-called "prudent investment theory" approximating the purchase price by present owners.

The main difference between the depreciated historical rate base prepared by applicant and that of the Commission's staff results from the fact that applicant's estimate includes the following items for which there are no allowances in the staff's estimate.

Working Cash	\$1,000,000
"Use value" of depreciated properties	1,530,000
140 coaches to be acquired	1,400,000
Deposits for bonds	380,000
Total	<u>\$4,310,000</u>

The Commission's engineer stated he had made no allowance for working cash in the rate base due to the fact that under normal conditions collections are made in advance of the payment of operating expenses and, therefore, there was no necessity to maintain a surplus working cash fund to carry on the operations. Likewise, it was contended that the item of \$380,000 deposit for bonds falls in this same category.

Applicant included as part of its rate base 20% of the cost of all properties fully depreciated or depreciated to a level below 20% of the original cost. The record shows that the company had on order at the time of the hearings, 140 coaches estimated to cost approximately \$2,400,000 of which \$1,400,000 was estimated as additions and betterments. The Commission's staff made no allowance in its rate base for these buses on the ground that they would not be required to conduct a satisfactory service over existing authorized routes. Furthermore, applicant's rate base, as of August 31, 1947, does not reflect the reduction in value due to depreciation accruing during the prospective rate year under consideration.

On this record the Commission is not justified in finding that any allowance should be made in the rate base for all or any portion of the four items presented by the applicant and listed above, amounting to a total of \$4,310,000. The Commission might reach a different conclusion upon a more complete record dealing with these particular items. The following order is based upon the plan that the proceeding will be held open in order that the parties may be afforded an opportunity to submit additional data.

It was the general consensus among the witnesses that some form of universal fare within the inner Los Angeles zone was desirable. Such a service is provided through the issuance of a universal transfer privilege on the payment of a ten-cent cash fare on any one of the three carriers -- Pacific Electric, Coach Lines or Transit Lines. Suggestion has been made that the fare structure on the Coach Lines be reduced to the level of the Transit Lines. In considering such a plan, we must look at the over-all situation. Generally speaking, the Coach Lines serve densely populated areas and effect a coordination between operations of the two parent companies.

The record shows that the Coach Lines is not a corporation but is an operating agency for the two parent companies, Pacific Electric and Transit Lines, each owning and controlling approximately one-half interest in the agency. It was organized in 1923 better to serve territory which bordered upon districts served exclusively by the two parent companies. The Commission has heretofore issued a number of certificates to the two parent companies operating under the name of Los Angeles Motor Coach Company, and in turn this operating agency files its separate tariff from that of the two parent companies.

Considerable testimony was introduced to show that the present

and proposed zone limits in the Highland Park business district are not satisfactory in that certain patrons, presently and under the proposed plan, would be required to pay a two-zone fare in traveling a short distance. It appears that some plan of overlap privileges should be worked out to adjust reasonably this situation. In the meantime the present zone limits in that area should remain unchanged.

From this record the Commission is unable to determine a rate base and further consideration should be given to this question. It is apparent, however, that this applicant is entitled to some immediate relief in the interest of placing it in a better financial position to continue and to improve the service. The fare structure authorized in the following order will serve as temporary relief until a more complete record can be developed.

Based on the evidence adduced in these proceedings we find as facts:

1. That under present fares the revenue now received by Transit Lines and its approximate one-half interest in Coach Lines is not sufficient to defray the cost of providing the service and allow a reasonable return on the properties used and useful in conducting a satisfactory service over existing authorized routes.
2. That the entire fare structure proposed by applicant has not been justified on this record.
3. That a fare structure of ten cents cash, tokens sold on a basis of three for 25 cents and a \$1.50 weekly pass, applicable only to the inner zone of the Transit Lines, combined with other fare and zone changes proposed by the applicant, will provide sufficient revenue to meet the operating costs and afford some return.
4. Loading standards substantially as set forth in Exhibits Nos. 48 and 49 are reasonable and should be complied with.

5. Applicant should submit a zone plan for the Highland Park Area which will afford reasonable access to the business center from the area immediately adjacent thereto, on the payment of one zone fare.

Based on the foregoing facts and conclusions, we find that the fare structure outlined in paragraph 3 above has been justified on this record.

I N T E R I M O R D E R

Public hearings having been held in the above-entitled case and application, and based upon the evidence received and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that the Los Angeles Transit Lines be, and it is hereby, authorized to increase or modify on not less than one (1) day's notice to the Commission and the public certain of its passenger rates, tolls, rentals, and charges for the transportation of passengers as set forth in Appendix "A" attached hereto and made a part hereof.

IT IS HEREBY FURTHER ORDERED that Pacific Electric Railway Company and the Los Angeles Transit Lines be, and they hereby are, authorized to increase on not less than one (1) day's notice to the Commission and the public certain of the passenger rates, fares, tolls, rentals, and charges for the transportation of passengers on the lines of the Los Angeles Motor Coach Lines as set forth in the Second Supplemental to Application No. 27466, in Exhibit "D", and as amended by Exhibit 29 of said application.

IT IS HEREBY FURTHER ORDERED that Los Angeles Transit Lines be, and it is hereby, ordered to provide sufficient service to maintain loading standards substantially as set forth in Exhibit No. 48 referred to in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Pacific Electric Railway Company and the Los Angeles Transit Lines be, and they hereby are, ordered to provide sufficient service to maintain loading standards on the lines of Los Angeles Motor Coach Lines substantially as set forth in Exhibit No. 49 referred to in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Los Angeles Transit Lines be, and it is hereby, ordered to submit to this Commission within sixty (60) days from the effective date of this order a zone plan which will provide reasonable transportation to its patrons in traveling between the business center of Highland Park and the area immediately adjacent thereto, on the payment of one zone fare.

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

In all other respects, this application is denied.

The Commission reserves the right to make further order or orders in this proceeding as may appear just and reasonable, and to revoke this authority, if, in its opinion, public convenience and necessity demand such action. This proceeding is held open for such purpose.

The effective date of this order shall be January 30, 1948.

Dated at San Francisco, California, this 19th day of January, 1948.

R. E. [Signature]
Justus F. [Signature]
[Signature]
Harold [Signature]
[Signature]
COMMISSIONERS

APPENDIX "A"

Passenger fares to be established as follows:

1. Zone Boundaries

Change or modify existing zone boundaries as requested in Application No. 27487 and the First Supplement thereto, and as shown on maps submitted as Exhibits Nos. 36 and 36A, except on the routes designated in Section VII, item d-5, of the supplemental application. The zone limits on the routes designated in Section VII, item d-5, are to remain unchanged.

2. Intrazone Fares

One way Adult:

Cash - 10 cents

Token - 8-1/3 cents, sold in minimum lots of 3 for 25 cents.

Weekly Pass: \$1.50

Good only in the "inner zone."

3. Interzone Fares

Between two points within two adjoining zones - 15 cents
 Between two points within three contiguous zones - 20 cents
 Between two points within four contiguous zones - 25 cents

4. School Fares

Where one-way fare is
named as:

Rate for 40-ride school
 commutation ticket will be:

10 cents	\$2.40
15 cents	3.60
20 cents	4.80

5. Miscellaneous Fares

On Air Races Express Line 35 cents
 On Airport Local Line 10 cents
 On Hollywood Turf Club Line 5 cents

6. Joint Fares

To apply to applicant, Los Angeles Motor Coach Lines and the Pacific Electric Railway Company, as set forth in Exhibit No. 29 of Second Supplemental Application No. 27466.

7. Eliminate and Discontinue

All weekly passes, joint or otherwise, except as authorized in Item 2, herein.

All 30-ride Family Commutation Tickets.

Special fare provisions for the lines designated as Through Motor Coach Lines in Local Passenger Tariff No. 4, Section 5.

8. All other fares, rules and regulations to remain unchanged.

APPENDIX "B"

GIBSON, DUNN & CRUTCHER, by Max E. Utt and F. H. Prince, for Applicant.
C. W. CORNELL and E. D. YEOMANS, for Pacific Electric Railway.
K. C. BEAN, Chief Engineer and General Manager, and T. M. CHUBB,
Assistant Engineer, Board of Public Utilities & Transportation,
City of Los Angeles.
ROGER ARNEBERGH, Assistant City Attorney, for City of Los Angeles.
CLYDE WOODWORTH, for City of Inglewood.
HENRY McCLERNAN, City Attorney, and JOHN H. LAUTEN, Assistant City
Attorney, for City of Glendale.
ARCHIE L. WALTERS, City Attorney, and GEORGE W. IRVING, Assistant
City Attorney, for City of Burbank.
LOREN W. EAST, Consulting Engineer, for Cities of Glendale and Burbank.
K. R. BIRGE, for H. B. Noble, City Attorney, City of Pasadena.
THEO K. RESNEY, for California Progressives.
P. H. LESTER, President, and CLARA McDONALD, Secy., and JOY A.
WINANS, for the Peoples Lobby of Los Angeles.
MRS. EDITH L. MARVIN, for Park Row Improvement Association.
ALBERT L. PARKER, for Utility Workers of America and Los Angeles
Industrial Union Council.
ESTHER GRUBER and O. P. CONWAY appeared in propria persona.