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Decision No. 41153

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Electric Railway Company for authority to increase rates.	Application No. 28131

FORREST A. COBB and MORRISON, HOHFELD, FOERSTER, SHUMAN & CLARK, for the Applicant; J. F. DU PAUL, City Attorney, and S. J. HIGGINS, Special Counsel, for the City of San Diego; MERIDITH CAMPBELL, City Attorney, for the City of National City; H. R. FULLER, City Manager, for the City of Coronado; DONALD A. STEWART, City Attorney, for the City of El Cajon; RALPH DAILARD, for San Diego School District; W. H. JENNINGS, City Attorney, for the City of La Mesa; BERT McLEES, for the San Diego School District.

O P I N I O N

In this application, as amended, San Diego Electric Railway Company seeks further increase in its fare structure.(1)

Public hearings were held at San Diego in August and September, 1947. The matter was submitted subject to the filing of briefs which have been filed and it is now ready for decision.

Applicant provides local public transportation service to the cities of San Diego, Coronado, National City, Chula Vista, La Mesa and adjoining unincorporated territory through the use of street cars and motor coaches. The fare structure is based on a zone system radiating from the downtown business area of San Diego.

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(1) At present, applicant is operating under "interim" fares established by Decisions Nos. 40220 and 40226, dated April 29 and 30, 1947, respectively, and made effective as of May 5, 1947. In this application the following further increases are requested:

Fare	Present Interim Fares	Proposed Fares
(a) Token Fare	3 tokens for 25 cents	4 tokens for 35 cents
(b) Weekly Interzone Pass		
Zone 1 to Zone 3	$1.50	$1.85
Zone 1 to Zone 4	1.60	2.25
Zone 1 to Zone 6	1.85	2.50
Zone 1 to Zone 7	2.35	3.00

In the matter of the increases herein sought, in addition to the "interim" fares already granted, additional evidence was presented by the applicant, the City of San Diego and the Commission's staff. The following comparison has been compiled from Exhibits Nos. 6, 14, and 22.

Estimates of Revenues, Expenses and Return on Rate Base for 12 Months' Period Ending July 31, 1948

1 - At Present (Interim) Rates

Item	Applicant Ex. #6	City of San Diego Ex. #14	P.U.C. Staff Ex. #22
Operating Revenues	$5,806,700	$5,971,500	$5,870,800
Oper. & Maint. Expenses	$4,753,300	$4,605,000	$4,692,000
Depreciation Expense	642,600	339,900	634,800
Amortization Expense	17,900	47,100	26,700
Operating Taxes	433,000	438,000	426,700
Subtotal Expense	$5,846,800	$5,430,000	$5,780,200
Net before Income Taxes	$ (40,100)	$ 541,500	$ 90,600
Income Taxes	-	217,200	36,300
Net Operating Income	$ (40,100)	$ 324,300	$ 54,300
Rate Base	$4,285,000	$3,540,000	$4,186,300
Rate of Return	-	9.17%	1.30%

2 - At Proposed Fares*

Item	Applicant Ex. #6	P.U.C. Staff Ex. #22
Operating Revenues	$6,102,700	$6,191,200
Oper. & Maint. Expenses	$4,648,700	$4,549,000
Depreciation Expense	642,600	634,800
Amortization Expense	17,900	26,700
Operating Taxes	436,200	429,200
Subtotal Expense	$5,745,400	$5,639,700
Net before Income Taxes	$ 357,300	$ 551,500
Income Taxes	143,300	221,200
Net Operating Income	$ 214,000	$ 330,300
Rate Base	$4,285,000	$4,186,300
Rate of Return	4.99%	7.89%

(Red Figure)

* The City of San Diego presented no evidence relative to the effect of the proposed fares, contending that the present "interim" fares were adequate.

The four major issues raised in connection with the proposed increase in fares are set forth in the briefs submitted by applicant and the City of San Diego and may be summarized as follows:

1. Estimates of future revenue.
2. Estimates of operating expense, exclusive of depreciation.
3. Depreciation expense.
4. Rate Base.

The foregoing table reveals the amount of these differences. The evidence and argument adduced in support of the various positions are as follows:

1. Revenue

Under present interim fares, applicant's estimate was $64,100 or 1.09% less than that of the Commission's staff, while the estimate of the City of San Diego was $100,700 or 1.72% higher. The Commission's staff presented charts showing traffic trends under prevailing rates and the estimated traffic that would flow under the proposed rates, and from these traffic charts determined the resulting revenue under the different fare structures. The city offered no detailed support for its estimates. From the evidence presented we find that the estimates presented by the Commission's staff should be given more weight than those presented by the city in determining the probable revenue that would accrue under the different fare structures considered.

2. Operating Expenses

Applicant's estimate is higher by $61,300 or 1.31% and the city's lower by $87,000 or 1.85% than the one presented by the Commission's staff. The differences may be attributed mainly to varying assumptions as to the annual vehicular mileage operated by streetcar and motor coach which was estimated by the various parties as follows:

Applicant	13,897,200
City	13,260,000
Commission's staff	13,877,700

Both applicant and the Commission's staff based their estimates of vehicle miles and, in turn, operating expenses, on the assumption that mileage would decrease in direct proportion to decrease in traffic and adopted the period subsequent to the last transition in June, 1947, from rail to bus operation as the criterion.

The city's estimate of mileage is based on conditions existing prior to that date. The estimates of operating expense prepared by the witness for the city were based on the operating expense estimate presented by applicant, decreased in accordance with the decreased mileage estimated by the city.

3. Depreciation and Amortization

Estimates submitted by applicant and the Commission's staff are based on similar assumptions and result in substantial agreement, being $660,500 and $661,500, respectively. The estimate of the city differs materially from the presentation by applicant and the Commission's staff as a result of the application of a different theory of depreciation, and amounted to $387,000. The differences result from two causes, namely:

1. Different treatment of depreciation expense assignable to 143 buses, which are shown as fully depreciated.

2. Length of service life to be assigned to present operative properties.

The depreciation history of the 143 buses is that, at the time of the purchase of said buses, the company availed itself of its privilege, under a certificate of war necessity, to fully depreciate those buses for tax purposes over a five-year period. The fact is that the annual depreciation applicable to these buses was yearly charged to operating expenses. These entries in the books of the company were not mere "bookkeeping entries" as claimed by applicant. The cost of these buses was actually returned in full to the company through annual depreciation charges to operating expenses. It is true that these buses are in a condition to render continued service and are now being so employed and will be so employed for a considerable time in the future. Applicant contends that it is entitled to continued annual depreciation charges to operating expenses for an additional period of time sufficient to exhaust the actual life expectancy of these buses. Should this contention prevail, it would mean that additional depreciation charges to operating expenses would result over and above the cost of these buses. On the other hand, the city takes the position that applicant has fully recovered the original cost of these buses through collection of depreciation expense from its patrons and that no further allowance for depreciation expense should be included as an operating expense in fixing rates for the future. With this contention, we agree. When the reasonable cost of property has been fully returned to the utility through depreciation charges to operating expenses, depreciation charges, as to such property, must cease. The treatment which we have accorded to depreciation as applied to these 143 buses does not contain any element of retroactive rate-making.

4. Rate Base

The rate base presented by the city excludes any allowance for the 143 buses shown as fully depreciated. Because we do not allow further depreciation charges to operating expenses as applied to these buses does not foreclose the allowance of some reasonable amount in the rate base for this equipment. We estimate that they have three more years of useful service life. Therefore, we will allow an amount in the rate base commensurate with remaining useful service life. Each case must necessarily stand upon its own peculiar facts and, under the special facts in this case, we believe that justice and equity require that this type of treatment be accorded to these 143 buses. We do not have here a situation where property has been fully depreciated over an admittedly normal and reasonable service life. In such circumstances, equipment so depreciated would be expected to be removed from the property of the company and salvaged. Here, the facts are different and these buses are still capable of rendering service, and it appears economically sound to retain this equipment in service. Should these buses, in fact, be fully depreciated, they would normally be removed from the property of the company and new buses would replace them. In such circumstances, the cost of the new buses would appear in the rate base and also annual depreciation expense would be charged to operating expenses. Actually, these 143 buses are still serviceable, rendering it unnecessary to replace them. It would appear to be equitable to consider this circumstance in arriving at a determination to grant this utility an allowance in the rate base to cover this particular equipment. Thus, we are faced with a condition and not a theory. We believe that this situation should be treated realistically and for this reason we have allowed an appropriate amount for these buses in the rate base.

For the purpose of this order we will adopt $4,200,000 as the proper depreciated rate base. Employing this amount and applying the estimated net operating income shown in applicant's Exhibit No. 6 results in a rate of return of 5.10% on the adopted depreciated rate base, and in the case of the Commission staff's Exhibit No. 22 the rate of return is 7.86%.

The estimated operating expenses contained in Exhibits Nos. 6 and 22 contain an allowance for depreciation expense for the 143 buses referred to above. The elimination of this expense would have the effect of materially increasing the rate of return above the respective percentage shown in these Exhibits. It appears that the most equitable method of adjusting the fare structure, the operation under which will afford a revenue sufficient to meet the cost of providing the service and a reasonable return on the adopted rate base, would be to allow a token rate of six for 50 cents, rather than four for 35 cents, as proposed herein, together with the other fares requested by applicant.

Upon this record we find that the revenues resulting from the present (interim) fares are not sufficient to defray operating expense and provide a reasonable return on applicant's used and useful property, and that the establishment of the fare structure herein authorized has been justified. The order will so provide.

<u>O R D E R</u>

Public hearings having been had in the above-entitled application, and based upon the evidence received and upon the conclusions and findings set forth in the preceding opinion, IJG A. 28131

IT IS HEREBY ORDERED that San Diego Electric Railway Company be, and it is hereby, authorized to establish on one (1) day's notice to the Commission and the public the following fares:

1. In Zones 1 and 2.

   One-way adult - 10 cents cash or an 8-1/3-cent token sold in minimum lots of 6 for 50 cents.

2. Weekly passes, good in the following zones:

Zones 1 and 2	-	$1.50
Zone 1 to Zone 3	-	1.85
Zone 1 to Zone 4	-	2.25
Zone 1 to Zone 6	-	2.50
Zone 1 to Zone 7	-	3.00

3. School passes

   a. Increase from $1.00 to $1.50

SP-	Zone 1 and 2 and East of 56th Street and El Cajon Avenue
SP-2-	Point Loma School District
SP-2-	La Jolla School District
SP-2-	Linda Vista School District

   b. Increase from $1.25 to $2.00

SP-	Zone 1 and 2 and East of 56th Street and El Cajon Avenue
SP-2-	Point Loma School District
SP-2-	La Jolla School District
SP-2-	Linda Vista School District

   c. Increase from $2.00 to $2.50

   SMP-4- Zones 1 to 3

4. Cancel the following $3.00 school pass:

   SMP-5- Zone 1 and 2 and State College students.

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

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be

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

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

R. T. [illegible]

Justus F. Craemer

Ira H. Rowell

Harold P. Huls

Kenneth Potter

COMMISSIONERS