

Original

Decision No. 42200

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 KEY SYSTEM TRANSIT LINES, a corporation,
 for an order pursuant to Section 63 of
 the Public Utilities Act authorizing the
 establishment of increases and adjust-
 ments in rates and fares for transportation
 of passengers between points in the Counties
 of Alameda and Contra Costa, and the City
 and County of San Francisco, in the State
 of California.

Application No. 29434

Donahue, Richards, Rowell and Gallagher, by Frank S. Richards, for Applicant, Key System Transit Lines; John W. Collier, City Attorney, and Archie W. Bowden, Assistant City Attorney, for the City of Oakland; George R. Glavinovich, City Attorney, for the City of Albany; Thomas M. Carlson, City Attorney, Wayne Thompson, City Manager, and George R. Thompson, for the City of Richmond; Arthur Carden, City Attorney, for the City of San Leandro; Stanley D. Whitney, City Attorney, John F. Hanson, Jr., Deputy City Attorney, and Carl Trocér, City Manager for the City of Alameda; John J. O'Toole, City Attorney, Dion R. Holm, Assistant City Attorney, and Paul L. Beck, Chief Valuation and Rate Engineer, by Paul L. Beck, for the City and County of San Francisco, interested party; Fred C. Hutchinson, City Attorney, and Robert T. Anderson, Assistant City Attorney, for the City of Berkeley; Berol & Handick, by Edward M. Berol, for the City of Hayward, San Lorenzo Village Homes Association, Hayward Area Chamber of Commerce, Eden Chamber of Commerce, Castro Valley Businessmen's Association, Real Estate Board of Southern Alameda County, and the Federated Improvement Clubs of Alameda County, protestants; Robert R. River and Eugene Cadonasso, for Bay Area Transportation League, Inc., protestants; C. T. Grover, for the Oakland Board of Education.

O P I N I O N

In this proceeding Key System Transit Lines seeks authority to increase certain of its local and transbay fares. Public hearings thereon were held at Oakland, August 12, 19 and 20 and September 8 and 10, and at San Francisco, September 15, 1948. The matter is now ready for decision.

Applicant also has pending a request (Application No. 29174) for authority to discontinue local street railway service on its four remaining street car lines (Nos. 1, 2, 4 and 5) being operated in the cities of Oakland and Berkeley and to substitute motor coach service along substantially the same routes.

An order is being issued today granting this application by Decision No. 42199. It was stipulated by the cities of Berkeley and Oakland that the evidence taken in this proceeding might be considered by the Commission as part of the record in Application No. 29174 by reference.

Key System Transit Lines conducts an integrated transbay and local service in the East Bay cities. The transbay service is provided through the operation of electric trains and motor coaches operated over the San Francisco Bay Bridge between San Francisco and the East Bay cities. The local service is presently being provided through the operation of motor coaches and street cars. Free transfers are issued between the transbay and local systems.

The East Bay local service area of the Key System comprises 10 municipalities as well as certain developed portions of Alameda and Contra Costa Counties adjacent to the municipalities served by it. A large percentage of the traffic on the local system flows in and out of the central business district of the City of Oakland and a lesser amount to and from the business districts of Alameda, Berkeley, Hayward, San Leandro and Richmond. This traffic is, for the most part, carried on routes radiating from the downtown business district of Oakland. Exhibit No. 3 employs 14th and Broadway, Oakland as the radial point for the local service. In the case of the transbay service Exhibit No. 4 shows the radial point to be the highway junction at the east end of the bay bridge crossing. This transbay radiating point is located approximately 2 miles northwest of 14th and Broadway.

The service area of the local system is now divided into two primary fare zones. The inner or central zone extends from Fairmont Avenue on the north to the southerly city limits of San Leandro on the south, an overall distance of approximately 19 miles. The cities of San Leandro, Alameda, Oakland, Piedmont, Emeryville, Berkeley and Albany are located in the inner zone which will sometimes hereinafter be referred to as Zone 1. The remainder of the service area is located in Zone 2 which comprises the cities of Richmond and El Cerrito to the north of

the central zone and Hayward to the south, as well as certain adjoining unincorporated portions of Alameda and Contra Costa Counties to the north and south of Zone 1.

In the instant proceeding Key System seeks authority to rezone the service area between the business centers of Oakland and Hayward by dividing it into three zones instead of the present two zones. Under this plan of rezoning the dividing line between Zones 1 and 2 would be at 73rd Avenue, Oakland, and the dividing line between Zones 2 and 3 at 143rd Avenue in Alameda County, situated approximately 1 mile south of the southerly boundary of San Leandro. Under the rezoning plan the present boundary between Zones 1 and 2 would be moved northerly a distance of approximately 3.5 miles, thus placing all of San Leandro, a portion of Oakland and certain sections of the unincorporated portion of Alameda County in Zone 2 instead of Zone 1 as at present. Hayward and a certain portion of Alameda County would be included in Zone 3 instead of Zone 2. To provide a one-zone fare for travel between the Hayward area and San Leandro it is proposed to retain the present lap zone located at Dutton Avenue, San Leandro.

The following tabulation is compiled from Applicant's Exhibits 3 and 4 and shows the air mile distances radiating from 14th and Broadway, Oakland, for the local system and from the east end of the bay bridge for transbay system.

Radial Air Line Distances from Respective Central Points, Miles			
	: Business	Limits of Zone	
	: Centers #	: Inner	: Outer
<u>Local System</u>			
South 2nd Zone	8.4	5.6	10.3
3rd "	14.0	10.3	14.5
North 2nd "	10.5	7.0	12.0
<u>Transbay System</u>			
South 2nd Zone	10.1	7.4	11.8
3rd "	15.4	11.8	16.2
North 2nd "	8.9	5.3	10.0
<u>Average of Local and Transbay</u>			
South 2nd Zone	9.3	6.5	11.1
3rd "	14.7	11.1	15.4
North 2nd "	9.7	6.2	11.0
# South 2nd Zone at E. 14th and Davis Street, San Leandro.			
" 3rd " " Castro and B, Hayward.			
North 2nd " " 10th and Macdonald, Richmond.			

A number of studies were presented showing the estimated results that would obtain under various changes in the company's fare structure. In addition to the revised fare structure proposed by applicant two others were presented, one by a representative of the Hayward and San Leandro districts, and the other by the Public Utilities Commission's Engineering Staff. Applicant did not propose any change in school fares and none was involved in any of the studies presented. The following tabulation has been prepared from these studies to show a comparison between the various fare changes employed and the one now in effect.

Comparison of Adult Fare Structures Employed in the Studies Presented			
	Present	Proposed	
	2-Zone	3-Zone	
Item	System	System	

LOCAL SYSTEMPresent Fares

Intrazone	10¢
Interzone: 2 Contiguous Zones	20¢

Proposed by Applicant (Ex. 2)

Intrazone	10¢
Interzone: 2 Contiguous Zones	20¢
3 Contiguous Zones	30¢

Proposed by San Leandro-Hayward Interests (Exhibits 17-A, 18, 19-A)

Intrazone Inner	10¢
" 2nd Zone	11¢ (A)
Interzone, 2 Contiguous Zones	22¢ (A)

Presented by P.U.C. Staff (Ex. 10)

Intrazone	10¢
Interzone: 2 Contiguous Zones	20¢ or 18-1/3¢ (B)
3 " "	30¢ or 26-2/3¢ (B)

TRANSBAY SYSTEMPresent Fares

S.F. to 1st or Inner Zone	25¢ (C)
" " 2nd Zone	35¢ (C)

Proposed by Applicant

S.F. to 1st or Inner Zone	27¢
" " 2nd Zone	37¢
" " 3rd Zone	47¢

Proposed by San Leandro-Hayward Interests

S.F. to 1st or Inner Zone	28¢ (D)
" " 2nd Zone	38¢ (D)

Presented by P.U.C. Staff

S.F. to 1st or Inner Zone	25¢
" " 2nd Zone	35¢ or 31-1/2¢ (E)
" " 3rd Zone	45¢ or 40-1/2¢ (E)

(A) Applicable to Hayward area 2nd Zone only, not proposed for Richmond 2nd Zone.
 (B) Suggested Fare Structure: 10¢ cash for the 1st zone and 10¢ cash or a token for each successive zone. Tokens 6 for 50¢. (C) Present fare structure provides for various commute fares at less than the cash fare. (D) For commute fares 3¢ to be added to present fare structure. (E) For the 2nd and 3rd Zones only a 20-ride, 60-day limit book at 10% discount.

The following tabulation has been prepared from the various exhibits presented to show a comparison between the estimated operating results that would obtain under different fare structures applicable to the ensuing year. Applicant's estimates are set forth in its Exhibit 2, those presented by representatives of San Leandro and Hayward areas were shown in Exhibits 17-A, 18, and 19-A, and those by the Commission's staff in Exhibits 9 and 10.

Comparison of Estimated Results of Operation for a 12-Month Period
Ending June 30, 1949
On the Basis of Complete Motorization of Local System
(Expressed in Thousands of Dollars)

I t e m	: Present Fares :		: Fares Proposed by Applicant :		: Alternate Fare Structures : Hay. etc. :	
	: P.U.C. Company :	: Staff :	: P.U.C. Company :	: Staff :	: Exh. 17-A: P.U.C. Company :	: Staff :
	: Exh. 2 :	: Exh. 9 :	: Exh. 2 :	: Exh. 9 :	: & 19-A :	: Exh. 10 :
<u>LOCAL OPERATIONS</u>						
Operating Revenue	\$ 8,919	\$ 9,135	\$ 9,474	\$ 9,754	\$ 9,259	\$ 9,589
Operating Expense	8,580	8,451	8,529	8,369	8,369	8,369
Net Operating Income	293	558	621	872	576	773
Rate Base	9,262	8,808	9,262	8,808	8,808	8,808
Rate of Return (%)	3.16	6.3	6.70	9.9	6.5	8.8
<u>TRANSBAY OPERATIONS</u>						
Operating Revenue	6,066	5,736	6,679	6,412	6,365	5,975
Operating Expense	6,062	5,880	6,062	5,829	5,829	5,329
Net Operating Income	4	(144)	405	396	367	134
Rate Base	6,456	6,556	6,456	6,556	6,556	6,556
Rate of Return (%)	.06	-	6.27	6.0	5.6	2.1
<u>COMBINED OPERATION</u>						
Operating Revenue	14,986	14,871	16,152	16,166	15,624	15,564
Operating Expense	14,643	14,331	14,591	14,198	14,198	14,198
Net Operating Income	296	414	1,026	1,268	943	907
Rate Base	15,718	15,364	15,718	15,364	15,364	15,364
Rate of Return (%)	1.88	2.7	6.53	8.2	6.1	5.9

(Foot Figure)

Included in the above operating statements are allowances for the undepreciated balance in the track and roadway account incident to the substitution of motor coach for street car operation on the four remaining lines as authorized in Decision No. 42199 referred to above. There is also included an allowance to cover the company's expenditure incident to repaving the streets

with the removal of street car tracks. Corresponding estimates of operating results with the continuance of street railway operations on the four remaining local rail lines indicate that with complete motorization annual savings in operating expenses will amount to about \$300,000, and that the rate increase required is lessened by a corresponding amount.

With respect to the item of revenue as shown in the estimates presented, the variations result from the different methods of approach employed by the engineers. The company's representatives used the first four months of 1948 as a basis which was expanded to a 12-month period with various allowances for diminution in traffic incident to applying different fares and zone plans. The Commission's engineers based their estimate of revenue on estimated trends of traffic for the different classes of traffic under the various fare structures considered. The representative of the Hayward-San Leandro districts employed the Commission's staff estimate of traffic and applied certain adjustments to compensate for the different fare structures he employed.

With respect to the estimates indicated in the above table covering expenses of operation, witnesses for both the company and the staff of the Commission have treated the unrecovered investment in the rail properties now to be retired as an item for which the company should receive reimbursement over a 10-year period. The company includes in expenses the sum of \$195,800 for this item, while the staff's witness included \$160,500. The staff's estimate of \$1,605,000 for unrecoverable investment, with one-tenth allowed as an expense charge for the ensuing year, appears to the Commission to be entirely adequate, in view of the fact that salvage value credits will be realized on both the physical and real properties that will be taken out of service, and such credits cannot now be estimated with reasonable certainty. Both witnesses included such part of the cost of rail facilities unrecovered through depreciation as a part of the rate base. It would appear more appropriate to treat it as an extraordinary cost of service which, for rate-fixing purposes, should be amortized with interest over a 10-year period.

Likewise, with respect to the costs now to be incurred in the removal of existing tracks and the pavement of streets, which the witnesses agree will total about \$1,230,000, should be treated as an extraordinary expense which the company

may recover over a 10-year period. As the timing of such street work is a matter to be determined by agreement with the two cities involved, the expenditures for this purpose, as they occur, should be entered in suspense accounts for the purpose of effecting their amortization with interest over the succeeding 10-year period. But such accounts should also provide for annual off-setting credits to care for the amortization of such income tax savings as may accrue to the company by reason of its inclusion of paving costs in the tax-return year during which they are actually incurred. We believe, therefore, that in testing expected operating results for the succeeding 12-month period, an expense allowance of \$123,000 will amply provide for this item of expense.

The preceding table setting forth the results of operations shows that the estimates presented by the applicant and the Commission's staff are in substantial agreement as to revenue, expenses, and rate base for the combined operations, but differ materially in the matter of allocation between local and transbay operation. It will be noted that the estimated rate of return as shown by the company's exhibits and based on its proposed fare changes is approximately the same for local and transbay operations, while the Commission's staff for the same fare structure show a rate of return of 9.9% for the local, 6.0% for the transbay and 8.2% for the combined operation. The alternate fare structure presented by the Commission's staff was estimated to result in a rate of return of 8.8% for the local, 2.1% for the transbay and 5.9% for the combined operations, respectively.

Representatives of the Hayward-San Leandro area opposed the adoption of the fare changes proposed by applicant as well as the alternate plan presented by the Commission's staff, contending that it placed an undue burden on patrons traveling to and from that area. As a substitute, it urged the adoption of the changed fare structure outlined in the foregoing tabulation, alleging that its plan would result in a more equitable distribution of the necessary increase in revenue. The record shows that the passengers involved in proposed rezoning constitute 7% of applicant's local traffic.

The equity of the proposed rezoning may be tested by reference to the preceding tabulation showing the radial distance from the selected central points for the local and transbay operations, respectively. This compilation shows that the

average distances of the various zone boundaries from the central points are approximately equal, the inner limits of the northerly and southerly second zone being 6.2 and 6.5 miles, respectively. Similarly, the distance to the outer limits of the present service area in the northerly second zone is equal to the distance to the inner limit of the southerly third zone. The testimony shows that the revenue per route mile received from the operation of the lines serving the Hayward-San Leandro area is substantially below the average for the system. In view of the fact that the local and transbay operations are integrated to a large degree, it is apparent that from a practical standpoint the zone lines for each operation should be identical, otherwise there would be untold confusion under the present plan of operation. The cities of Alameda, Albany, Berkeley, Oakland, Piedmont, Richmond and San Francisco were represented at the hearing and participated in examination of witnesses but presented no direct testimony. The cities of Albany and Richmond did, however, enter a formal protest to any increase in the present fare structure.

A review of this record shows that during the past year the company's earnings have been inadequate to pay the operating expenses and provide any material return on the investment. This condition has been occasioned by a decrease in the volume of traffic and an increase in the amount of operating expenses, particularly in the way of increased labor and material costs. (1)

(1) Taken from Transcript, Page 15. Testimony of Applicant's witness Teasdel.

"Q. Mr. Teasdel, what is the reason for this application presently being heard?

A. It is imperative that the Company's revenues be increased in order to continue the present high standard of service, to fully resume a proper major overhaul maintenance program, and to increase the Company's earnings. Last year this Commission approved fare increases which the Commission's Staff estimated would yield a net income of \$1,175,725 before interest and income tax requirements of the Company, with a rate base slightly in excess of 15 million dollars. The Company's actual earnings in 1946, before income tax and interest charges, were \$702,667. In 1947 a loss of \$132,540 was sustained. For the first six months of 1948 the Company's earnings, before interest and income tax charges, amounted to only \$207,854, which was entirely occasioned by a complete stoppage of the major overhaul program in the Emeryville shops during the month of April, and only a partial resumption thereof during May and June of this year. Increased expenses in excess of \$800,000 annually became effective June 1, 1948, to pay higher wages to our employees and to pay for the higher costs of gasoline and other materials and supplies. It is vitally necessary that higher rates be authorized."

The estimated increase in annual revenue that would accrue under the fare structure prescribed by the Commission's staff in Exhibit No. 10 amounts to approximately \$693,000, of which \$447,000 would be obtained from local traffic and \$246,000 from the transbay patrons.

The Commission recognizes the fact that the fare increase authorized herein falls largely upon that group of the company's patrons traveling to and from the southerly second and third zones which in fact are a small percentage of the total passengers carried by applicant. However, it has been shown that the present level of fares paid by this group of passengers is out of line from a fare standpoint with the remainder of the company's traffic. It is clear from this record that the fare structure authorized herein will more nearly equalize the charges between that portion of the public traveling to and from the Richmond area with those traveling to and from the San Leandro-Hayward area.

With respect to transbay operation the record shows that the traffic now divides itself on the following fare basis between San Francisco and Zones 1 and 2 on a percentage basis:

	<u>Zone 1</u>	<u>Zone 2</u>
Cash	44.2%	6.1%
Commute (5 day)	4.5	3.2
" (7 day)	9.8	3.0
20-ride Tickets	23.1	1.1
Other	4.9	0.1
	<u>86.5%</u>	<u>13.5%</u>

In comparing the cost between a cash and commute rider between San Francisco and the East Bay, the record shows that in the case of Zone 1, the five-day commute rider pays on the average 24.5 cents and the seven-day commuter 21.9 cents per ride, as compared to 25 cents cash, and in the case of Zone 2, the five-day commuter pays on the average 29.0 cents and the seven-day commuter 26.5 cents, as compared to 35 cents cash.

It is apparent from this record that it would be desirable from a practical and public interest standpoint to hold the basic transbay fare to 25¢. Such a single coin fare has a material advantage in expediting the handling of traffic over a multiple coin fare. For the convenience of passengers desiring to purchase

transportation in book form in lieu of the cash fare the company should continue to offer for sale tickets in book form in lieu of cash. Applicant proposed an increase of 2¢ in the basic cash transbay fares to recover the average toll now paid to the Toll Bridge Authority for each transbay passenger. San Leandro-Hayward area proposed an increase of 3¢ in all transbay fares in order to provide a portion of the needed additional revenue, rather than increase the fare structure in the Hayward area through the establishment of a third zone. Neither of these proposals appear appropriate and have not been justified on this record.

A careful review of this record impels the conclusion that with respect to transbay fares the present cash, monthly commute, and 20-ride books should be replaced with a cash fare of 25¢ applicable to traffic traveling between San Francisco and Zone 1 in the East Bay area, with a 10¢ increment for each successive zone beyond Zone 1. In addition a 20-ride 60-day limit book will be offered at a reduction of 10¢ applicable to traffic between San Francisco and Zones 2 and 3 in the East Bay area.

Based upon this record the Commission finds:

- (1) That applicant's revenue under the present fare structure is not sufficient to cover the cost of providing the service and allow a reasonable return on investment.
- (2) That for the purpose of this proceeding it is in the public interest to consider the company's integrated operations as a whole rather than attempt to adjust fares on a separate basis for local and transbay service.
- (3) That the rezoning plan proposed by applicant has been justified.
- (4) That the fare changes presented by the Commission's staff in Exhibit No. 10 offer the most equitable plan of adjusting the fares in keeping with the cost of providing the service under prevailing conditions and that the net operating revenue under this fare structure will be sufficient to enable the company to pay its operating expenses and taxes, to meet its obligations, to improve its service and to maintain its credit.

(5) That the fares and zone plan authorized in the following order have been justified on this record.

C R D E R

Key System having filed an application requesting authority to adjust its 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 ORDERED that:

I - Key System Transit Lines be and it is hereby authorized to establish, in accordance with the rules of the Commission, upon one (1) day's notice to the Commission and the public, a fare structure for its local and interurban operations as follows:

A - Zoning, for both local and transbay operations.

(1) Establish as the 1st or inner zone the area served from the present north inner zone limit at Fairmont Avenue in El Cerrito to and including 73rd Avenue in Oakland on the south, or as extensions of the avenues named. All other conditions remaining as at present including the lap into the next zone north to Richmond Street in El Cerrito via the present No. 67 Route.

(2) The 2nd Zone north to remain as at present being the area served generally to the north of Fairmont Avenue, or its extension, in El Cerrito.

(3) Establish as a 2nd Zone south the area served between, and including, 73rd Avenue in Oakland and 143rd Avenue in unincorporated Alameda County; or as extensions of the avenues named.

(4) Establish as a 3rd zone south the area served generally to the south of, and including, 143rd Avenue, or its extension, in unincorporated Alameda County. Provide for a lap into the 2nd zone south to, and including, Dutton Avenue in San Leandro.

B - Fares

(1) The intrazone local adult fare to remain as at present at 10 cents.

(2) Establish the interzone adult fares in local service as 10 cents cash for the first zone and 10 cents cash or a token for each successive zone traveled; tokens to be sold for 6 for 50 cents.

(3) Establish as the adult cash fare between San Francisco and the above established zones in the East Bay area the following:

1st or Inner Zone -	25 cents
2nd Zone	35 "
3rd Zone	45 "

(4) Establish a fare between San Francisco and the 2nd and 3rd Zones in the East Bay area providing for the sale of a 20-ride book at a 10 per cent discount for use within two (2) consecutive calendar months.

(5) Establish regular transfer privileges for patrons of the "M" (Hayward) Line, thereby lifting the present restrictions.

(6) Abolish all present commutation and 20-ride reduced fares.

(7) Retain all other rates, fares, rules, regulations as are presently in effect.

(8) All outstanding commutation and 20-ride tickets will be honored to and including November 30, 1948. All 20-ride tickets outstanding after November 30, 1948 will be redeemed at the purchase price, computed to the nearest cent, when presented at the company's office.

The authority herein granted shall expire unless all fares and rates authorized are filed and made effective within ninety (90) days of the date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects the authority herein granted shall expire unless all fares and rates authorized are filed and made effective within ninety (90) days of the date of this order shall be November 19, 1948.

San Francisco, California, November 4, 1948.

R.B. [Signature]
Justus J. [Signature]
James F. [Signature]
Harold P. [Signature]
[Signature]
COMMISSIONERS

CORRECTION

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

(3) Establish as the adult cash fare between San Francisco and the above established zones in the East Bay area the following:

1st or Inner Zone -	25 cents
2nd Zone	35 "
3rd Zone	45 "

(4) Establish a fare between San Francisco and the 2nd and 3rd Zones in the East Bay area providing for the sale of a 20-ride book at a 10 per cent discount for use within two (2) consecutive calendar months.

(5) Establish regular transfer privileges for patrons of the "R" (Hayward) Line, thereby lifting the present restrictions.

(6) Abolish all present commutation and 20-ride reduced fares.

(7) Retain all other rates, fares, rules, regulations as are presently in effect.

(8) All outstanding commutation and 20-ride tickets will be honored to and including November 30, 1948. All 20-ride tickets outstanding after November 30, 1948 will be redeemed at the purchase price, computed to the nearest cent, when presented at the company's office.

The authority herein granted shall expire unless all fares and changes herein authorized are filed and made effective within ninety (90) days of the effective date of this order.

II - IT IS HEREBY FURTHER ORDERED that in all other respects the application is denied.

The effective date of this order shall be November 19, 1946.

Dated at San Francisco, California, November 4, 1948.

R. J. [Signature]
Justice F. Cravner
Charles F. Lawrence
Harold P. Kula
Thomas H. Potter
COMMISSIONERS