Decision No. 42298

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 adjustments 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

SUPPLEMENTAL OPINION ON DENIAL

OF PETITIONS FOR REHEARING

The Commission's Decision No. 42200, rendered on November 4, 1948, authorized Key System to increase its charges for certain of the transportation services rendered. As the decision indicated, the total estimated increase in the company's gross revenue would be about $693,000 annually.

A petition for rehearing was then filed by the cities of San Leandro and Hayward, and another petition for rehearing was filed by the Bay Area Transportation League. Said petitions were argued before the Commission en banc on November 24, 1948. The Commission having considered the arguments presented, and being of the opinion that no good cause appeared for further stay of the rates prescribed by Decision 42200, an order was issued that day denying the petitions and stating that a supplemental opinion would be filed to more fully explain the reasons prompting the Commission to take such action. Accordingly, this opinion will serve to supplement the order denying rehearing issued on November 24, 1948.

The argument advanced by Bay Area Transportation League appears to be that the record does not justify any increase in the rates of the company. No other party to the rate application proceeding took a similar position, and that is not the contention of the other petitioners, the cities of San Leandro and Hayward.

The contentions of San Leandro and Hayward, two of the ten cities within which transportation service is rendered by the company, is that in spite of the company's need for increased revenues of at least the amount authorized by the Commission, the spread of that increase so as to make it fall most heavily upon their communities is unjust and unlawful as to them, and preferential to the other areas served by the company. The Commission believes that these cities have a misconception of the basic facts underlying its decision.

The record shows that the revised East Bay zoning plan which the Commission found to be justified was the result of studies made of equitable zone limits and volume of traffic flow throughout the company's service area. The evidence clearly shows that the creation of a third rate zone covering generally the Hayward territory, together with the changing of the second zone to begin at 73rd Avenue in Oakland and including the San Leandro area, was compelled by the fact that patrons of the company's service within and to the existing south second zone area have been receiving preferential fare treatment. Unchallenged testimony in the record indicates that the newly created zones do not compare unfavorably as to their extent and overlapping privileges with similar fare zones approved by the Commission for transportation companies operating in other cities. However, the Commission is of the opinion that fare zones cannot equitably be established upon consideration only of route mile distances between their boundaries. There must also be considered the total volume of traffic and earnings on all routes to and within the fare zone. In addition, the zone lines established for the applicant transportation company necessarily must be reasonable for both local and transbay traffic, for the transfer privileges accorded make the two services inseparable for zoning purposes.

Exhibit 22 presented by the petitioning cities undertakes to show that the actual route miles traversed by busline No. 82 between the business center of Oakland and the terminal of the line in Hayward, in the newly established third zone, compares favorably with the route miles traversed by busline No. 72 between

Oakland and certain north zone 2 points in the Richmond area. However, that exhibit accords no weight to the route miles of other trunk lines serving such areas by longer routes.

The evidence of record clearly shows that the total miles of coach service which has been rendered to and within the San Leandro and Hayward territory in south zone 2 as it existed at the time of the hearing exceeds that rendered to the Richmond area in north zone 2, while the bus line revenue obtained from the south zone is substantially less than that obtained from the north zone. The following table shows the coach miles operated and the revenues derived per coach mile during the month of June 1948 as reflected in exhibits of record.

	Rev. per month	M. C. miles	Rev. per M. C. mile (cents)
All local coach lines	$ 540,909	1,332,991	40.58
Zone 2 North Lines	131,537	246,670	53.32
Zone 2 South Lines	122,966	380,966	32.28

The evidence also shows that the average system cost of coach operation without allowance made for return on invested capital, is not less than 41.5¢ per coach mile. Hence, the Commission was compelled to the conclusion that the service which had been rendered to the San Leandro and Hayward areas in the then existing south zone 2 fell short of the direct cost of providing that service by 9.22¢ per coach mile operated, and fully sustained the declaration made in Decision 42200 that the level of fares applicable to that area was out of line with the remainder of the company's operations. The evidence of record further shows that with the establishment of the south second zone line at 73rd Avenue in Oakland and a third zone line at 143rd Avenue between the cities of San Leandro and Hayward, and the application of the fares which the company sought to establish, the average revenue per coach mile operated in serving these two zones would be 42.94¢ per coach mile. Although that revenue per coach mile would be more than the direct cost of service, it would remain below the average coach mile revenue

realized by the company from other fare zones. As the Commission's decision did not permit the company to establish the fares prayed for, but required the sale of tokens at a lower unit cost than a cash fare, it becomes evident that with the application of the fare structure of which the petitioning cities complain the gross revenue that the company will derive from the service rendered to the two south zones cannot be deemed prejudicial to them and preferential to other cities or areas served.

Petitioners assert also that the increases in local fares need not have been of the amount authorized had the Commission permitted the company to establish transbay fares at the level prayed for in its application. In this connection petitioners point to the difference in the resulting rates of return from local and transbay operations as reflected in the staff's Exhibit 10 summarized in the table set forth in the Commission's decision. It must be made clear that the Commission did not find that the expected return on the local operations would be 8.8% on the capital devoted to those operations and 2.1% on the transbay operations. It found only that the total net operating revenue under the fare structure recommended by its staff witnesses as indicated by Exhibit 10, with a return of 5.9% on both operations, would be sufficient to enable the company to meet its expenses and financial requirements. To reflect as nearly as possible the returns to be realized separately from local and transbay operations, the witnesses for both the company and the Commission made allocations of those revenues and expenses that necessarily had to be assigned on a judgment basis to one or the other operation. Their judgments differed substantially. As there was no suggestion from any source that the two services should be treated as distinct operations for rate making purposes, the Commission was not called upon to resolve the differences between the witnesses in making such allocations. Had it attempted to do so, and had any substantial weight been accorded the judgment expressed by company witnesses, the resulting rates of return for the two services would have been more nearly equal.

Another asserted error to which the petitioning cities of San Leandro and Hayward call attention is the Commission's approval of an annual charge in the company's operating expenses for the purpose of amortizing certain unrecovered capital and expense items arising from the substitution of coach service for four street railway lines in Oakland and Berkeley. Petitioners seem to contend that the inclusion of such expenses has brought about an increase in their rates by a like amount. This is not the fact. No party questioned the propriety of such expense allowance during the course of the hearing. The record clearly indicated that with the abandonment of the street railway lines the resulting operating economies would reduce the company's need for additional revenue by a sum much in excess of the amount included in operating expenses incident to the abandonment of those rail lines. The Commission's treatment of rail line abandonment expenses in no way affected the increase in rates on traffic assignable to the cities of San Leandro and Hayward. As above indicated, the increase in their rates due to the prescription of a new third zone was compelled by the fact that the evidence clearly showed that the continuance of the existing rate zone structure would merely perpetuate undue rate discriminations in their favor.

For these reasons the Commission concluded that the petitions for rehearing of Decision 42200 should be denied, and it is so ordered by its Decision 42271 of November 24, 1948.

Dated at San Francisco, California, this 7th day of December, 1948.

R. E. Mittelstaedt

Justus F. Craemer

Harold P. Huls

Kenneth Potter

Commissioners.