

ORIGINAL

Decision No. 42248

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) Application No. 30461
 of Increases and Adjustments in Rates and)
 Fares for Transportation of Passengers be-)
 tween Points in the Counties of Alameda and)
 Contra Costa, and the City and County of)
 San Francisco, in the State of California.)

Donahue, Richards, Rowell and Gallagher,
 by Frank S. Richards, for Applicant, Key System
 Transit Lines; Stanley D. Whitney, City Attorney
 and Acting City Manager and John F. Hanson, Jr.,
 Deputy City Attorney for the City of Alameda, in-
 terested party; George R. Glavinovich, City Attorney
 for the City of Albany; Fred C. Hutchison, City
 Attorney, and Robert T. Anderson, Assistant City
 Attorney for the City of Berkeley, protestant;
Edwin S. Howell, City Manager for the City of El
 Cerrito, interested party; John W. Collier, City
 Attorney, Archer Bowden, Assistant City Attorney,
 and Loren East, Public Utility Engineer, for the
 City of Oakland, interested party; J. Marcus Hardin,
 City Attorney, and Wallace W. Everett, Jr., Assistant
 City Attorney, for the City of Piedmont, interested
 party; Robert Collins, Assistant City Attorney, D. M.
Bradley, Mayor, James Kenney, Councilman and Lee
Roberts, Assistant to City Manager for the City of
 Richmond, protestant; Dion R. Holm, City Attorney,
Thomas A. Toomey, Jr., Assistant City Attorney, and
Paul L. Beck, Chief Valuation and Rate Engineer for
 the City and County of San Francisco; Arthur M.
Carden, City Attorney for the City of San Leandro;
Robert E. Truchhaft and John Morgan for Independent
 Progressive Party of Alameda County, protestant;
Irene Kwas, for Alameda County C.I.O., protestant;
P. W. Barnard for Alameda Citizens Transportation
 Association, interested party; Thomas A. Fox for
 Home Owners Improvement Club of North Oakland and
 Berkeley; Robert B. River, for Bay Area Transporta-
 tion League, protestant; Marston Campbell, Jr.,
Mrs. Kathie Zahn, Mrs. Samuel Landis, interested
 parties.

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 were held at Oakland on July 14, 27 and 28, 1949, and the matter is now ready for decision.

Applicant conducts two types of operations: (a) a local service throughout the East Bay cities extending from San Pablo on the north to Hayward on the south, and (b) an inter-city operation between the East Bay cities and a San Francisco terminal located at 1st and Mission Streets. The local service is provided entirely through the operation of motor coaches, while the transbay service is provided partly by electric trains and partly by motor coaches.

The East Bay service area is divided into three zones radiating from the business center of the City of Oakland. The inner or central zone extends from Fairmont Avenue in El Cerrito, on the north, to 73rd Avenue in Oakland, on the south, which includes the cities of Albany, Berkeley, Emeryville, Piedmont, Alameda, and the greater portion of Oakland. The second zone consists of the cities of El Cerrito, Richmond and San Pablo on the north and the area between 73rd Avenue in Oakland and 143rd Avenue in Alameda County, on the south, which embraces the City of San Leandro as well as a portion of Oakland. The third zone is situated south of 143rd Avenue which includes the City of Hayward. There is nothing in this proceeding which involves a change in the present zone plan of this carrier.

The present adult fares, and those requested by applicant are as follows:

<u>LOCAL</u>	<u>Present</u>		<u>Proposed</u>	
	<u>Cash</u>	<u>Reduced</u>	<u>Cash</u>	<u>Reduced</u>
Intra-zone	10¢	-	11¢	-
Two contiguous zones	20¢	18-1/3¢ *	20¢	-
Three contiguous zones	30¢	26-2/3¢ *	30¢	-

* Tokens are sold in blocks of 6 for 50¢, used in conjunction with a 10-cent fare, for inner zone travel.

<u>TRANSBAY</u>	<u>Present</u>		<u>Proposed</u>	
	<u>Cash</u>	<u>Reduced</u>	<u>Cash</u>	<u>Reduced</u>
Between San Francisco and:-				
Inner zone	25¢	-	30¢	27 ¢ (a)
Second zone	35¢	31.5¢ (a)	35¢	31.5¢ (a)
Third zone	45¢	40.5¢ (a)	45¢	40.5¢ (a)

(a) 20-ride books sold at 10% discount, honored during month sold and first succeeding month.

SAN FRANCISCO-OAKLAND BAY BRIDGE TOLL PLAZA

Between San Francisco and Bay Bridge Toll Plaza	10¢ #	-	11¢ #	-
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Between Bay Bridge Toll Plaza and any regular stop on all motor coach lines in the East Bay Area	10¢ #	-	11¢#(b)	-
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To be sold only in books of 25 tickets to persons employed at the Toll Bridge Plaza.

(b) To inner zone only. Users of these tickets may travel into the second or third zones upon payment of an interzone fare of 10 cents for each additional zone beyond the inner zone.

ALL OTHER FARES

All other fares and rules and regulations to remain unchanged.

Applicant bases its request for increased fares on the following allegations:

1. That the gross revenue received by the company has fallen far short of the amount estimated by the Commission in its order of November 4, 1948.
2. That applicant has entered into franchise agreements with all of the cities in the East Bay, whereby applicant is obligated to pay increased taxes. These agreements provide that the tax is payable commencing April 15, 1949.
3. That applicant now, for the fourth successive year, has been subjected to increased wage rates and is now confronted with a substantial increase in its cost for labor, retroactive to June 1, 1949.

4. That there has been a serious decline in passenger traffic with an accompanying decrease in revenue.
5. That the financial burden created by the foregoing items cannot be absorbed by applicant without immediate relief through an increase in its passenger fare.

The outstanding capital stock of Key System Transit Lines is owned by Railway Equipment and Realty Company, Ltd., a non-operating holding company. This company also owns the real estate and improvements thereon, street cars and motor coaches used by Key System in its transportation operations. Key System sets up on its books of account a rental charge payable to the holding company which is based on the estimated depreciation expense plus interest at six per cent on the original cost of the properties. Applicant conducts all operations and owns all trackage, electrical overhead system, substations and certain rights-of-way. The track facilities used on the Bay Bridge crossing are owned by California Toll Bridge Authority. Key System pays to the Bridge Authority a toll for each passenger transported across the bridge. This toll is based on a charge of 2½ cents for those riding in motor coaches and 1-3/4 cents for those in trains. All estimates of the results of operations presented in this proceeding were based on the assumption that Key System owned and operated all the facilities rented to it by the Railway Equipment and Realty Company. This treatment eliminates the necessity of considering the reasonableness of intercompany rental charges.

Applicant, through its consulting engineer, and also the Commission's staff, presented estimates of the operating results covering the ensuing year on two bases:

- (a) A continuation of the present fare structure and
- (b) With operations conducted under the fare structure proposed by applicant.

A comparison of the results of these two estimates are shown in the following table:

COMPARISON OF ESTIMATED RESULTS OF OPERATION FOR
A 12-MONTH PERIOD ENDING AUGUST 31, 1950
 (Expressed in Thousands of Dollars)

I t e m	Present		Fares Proposed	
	Fares		by Applicant	
	Company	P. U. C.	Company	P. U. C.
	Exh. 1	Exh. 6	Exh. 1	Exh. 6

LOCAL OPERATIONS

Operating Revenue	\$8,396	\$8,750	\$8,946	\$9,267
Operating Expense *	8,349	8,484	8,508	8,698
Net Operating Income	47	266	438	569
Rate Base	6,859	6,732	6,859	6,732
Rate of Return (%)	.68	3.9	6.38	8.5
Coach Miles Oper. #	17,531	17,565	17,284	17,565

TRANSDAY OPERATIONS

Operating Revenue	\$5,741	\$5,699	\$6,288	\$6,229
Operating Expense *	5,858	5,592	5,969	5,808
Net Operating Income	(117)	107	319	421
Rate Base	6,268	6,288	6,268	6,288
Rate of Return (%)	-	1.7	5.09	6.7
Coach Miles Oper. #	4,759	4,537	4,687	4,537
Train Miles Oper. #	3,020	2,990	2,990	2,990

COMBINED OPERATION

Operating Revenue	\$14,137	\$14,449	\$15,234	\$15,496
Operating Expense *	14,207	14,076	14,477	14,506
Net Operating Income	(70)	373	757	990
Rate Base	13,127	13,020	13,127	13,020
Rate of Return (%)	-	2.9	5.77	7.6

(Red Figure)

* Including Income Taxes
 # Thousands of Miles

A comparison of the exhibits introduced by applicant and the Commission's staff shows that generally they are in close agreement except as to four items. The major differences in their estimate relate to (a) amount of gross revenue from local operations, (b) cost of maintenance of motor coaches, (c) allowance for injuries and damages and (d) allowance for annual depreciation expense.

The gross revenue from local operations was estimated by applicant at an amount approximately \$320,000 below the estimate presented by the staff. This difference results from divergent conclusions based upon the trends as shown by past records of the volume of traffic carried. The company's witness contended that the trend, subsequent to the last fare increase in November, 1948, has been downward at a rate of 3.2% per year, and that the result of increased unemployment and other adverse conditions indicates a continuation of this down trend throughout the next year. On the other hand, the staff, in its Exhibit No. 6, presented graphs showing the average levels of weekdays, Saturdays, and Sundays and holidays for each of the first six months of 1949, which were said to indicate a level trend throughout this period, and the staff estimate assumed that the trend of traffic would continue at this level during the ensuing year.

The staff estimated the cost of maintaining the motor coach fleet at an amount of \$159,000 above that estimated by applicant. The company based its estimate on costs prevalent during the first five months of 1949 while the staff made allowance for increased maintenance costs due to the increased age of the fleet.

Applicant has been currently charging to operating expenses \$50,000 per month, or \$600,000 per annum, to cover cost of injuries and damages. It also sets up on its books an estimate of the probable cost of settlement of each claim. The experience of

the nine months ended June 30, 1949, shows a current annual expense of approximately \$500,000. The annual cost of injuries and damages was included in applicant's estimate of \$600,000 and in the staff's estimate at \$500,000.

Annual depreciation expense was estimated by the company at \$1,250,800. The corresponding amount included by the staff was \$1,151,100. This difference springs largely from divergent estimates of length of service life of some of the items of property.

Key System, in this present application, is requesting increased fares to offset the increasing expenses of operation, the principal items being a wage increase, which is retroactive to June 1, 1949, and additional franchise fees resulting from recently negotiated agreements with all the East Bay cities, which are retroactive to April 15, 1949. These two items amount to approximately \$500,000 per annum. The record shows that for the six-month period ended May 31, 1949, during which the present fares were in effect, applicant's net operating income amounted to \$371,048. This is equivalent to a rate of return of 5.7% on a rate base of \$13,000,000. The above increase of \$500,000 in expense would reduce this return by approximately 2.3%.

It is evident from this record that some relief must be granted applicant. The transbay fare structure proposed by it appears to be equitable. It also appears that the present 10-cent local cash fare must be increased. Various alternate local fare structures were studied by the Commission's staff, one of which included a token fare in addition to the 11-cent cash fare. These tokens would be sold on the basis of ten for one dollar and it was estimated that fifty per cent of the riders would avail themselves of this reduced fare. The use of the token would offer a more convenient method of payment for the passenger and would facilitate collection. The effect of this fare structure was estimated to reduce the staff's estimate of the rate of return to 6.4%.

Under any of the fare structures presented herein, the company will be faced with an expense of changing its fare boxes.

The present fare boxes will now register only dimes and tokens. The expense of altering them to accommodate dimes and pennies was estimated to amount to \$45,000. The estimate presented by the staff provided for an investment of \$150,000 and an annual depreciation expense of \$7,500 incident to the purchase of new boxes. These new boxes would accommodate a number of different fare structures.

The various East Bay cities were represented at the hearing by their respective city attorneys or other officials, and participated in the development of the record by cross-examination of company and Commission witnesses and went on record as opposed to any increase not justified by the record adduced.

Certain organizations opposed the granting of the increased fares on the ground of inability of the low income segment of the population to pay the increase. They suggested the possibility of improving the earning position of applicant through a decrease in fares based upon the assumption that such a change would have the effect of increasing patronage. Competent testimony showed it to be impossible to improve the earning position of applicant by lowering fares if present loading standards are to be maintained. It is believed that applicant has reduced off peak headways as far as is practicable, consistent with reasonable standards of service.

Questions were raised also as to whether applicant's affiliations with National City Lines had resulted in greater than normal investment in motor coaches and in the prices paid for fuel and tires. The record shows that in all instances applicant's costs in these respects were no greater than similar costs of transportation companies not owned by the National City Lines.

Based upon the 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 an adequate return on the investment in property used in the service.

(2) That the increased fares proposed by applicant, modified by the addition of a token fare of 10 cents, sold on the basis of ten for one dollar, for intrazone travel in the East Bay area, have been justified on this record.

ORDER

Key System Transit Lines, having filed an application requesting authority to increase certain of 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 five (5) days' notice to the Commission and the public, a fare structure for its local and transbay operations as follows:

LOCAL ADULT FARES

All intrazone travel	11 cents or one token (a)
Between two contiguous zones	20 cents or two tokens (b)
Between three contiguous zones	30 cents or three tokens (b)

- (a) Tokens to be sold on basis of ten for one dollar.
(b) Tickets may be substituted for cash or tokens if applicant so elects.

TRANSBAY ADULT FARES

Between San Francisco and inner zone	30 cents
20-ride books to be honored during the month sold and the succeeding month	\$5.40

ALL OTHER FARES

All other fares are to remain unchanged.

SAN FRANCISCO-OAKLAND TOLL BRIDGE PLAZA

Between San Francisco or the East Bay inner or central zone and the San Francisco-Oakland Toll Bridge Plaza 11 cents

To be sold in books of 25 tickets to persons employed at the Toll Bridge Plaza. Users of the above tickets may travel into the second or third zones upon the payment of 10 cents for each additional zone travelled.

II - Key System Transit Lines shall make available for sale to the public, on trains and motor coaches engaged in transbay operations, reduced fare or commute books applicable to all zones.

III - Applicant shall honor second and third zone tokens and 25-cent tickets of the 20-ride inner zone convenience books during the 10-day period following the effective date of the new fares herein authorized, and outstanding tokens or tickets shall be redeemed at their face value at the San Francisco Terminal or applicant's office at 1106 Broadway, Oakland, California.

IV - In all other respects this application is denied.

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.

The effective date of this order shall be 20 days after the date hereof.

Dated at San Francisco, California, this 29th day of August, 1949.

R. F. Sullivan
Justus F. Garner
Harold P. Lively
Harold P. Kild

COMMISSIONERS