

Decision No. 45205

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
KEY SYSTEM TRANSIT LINES for an order)
increasing and adjusting 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. 31179

ORIGINAL

Appearances

Donahue, Richards, Rowell & Gallagher by Frank S.
Richards and George E. Thomas, for applicant.

J. F. Coakley, Douglas R. Dunning and David I. Wendel,
for County of Alameda; John W. Collier, J. F.
Hassler, and Loren W. East, for City of Oakland;
Ross Miller, Fred C. Hutchison, and Robert T.
Anderson, for City of Berkeley; Edward R. Plotner,
for City of Albany; Arthur M. Carden, for City of
San Leandro; Wallace W. Everett, Jr., for City of
Piedmont; P. W. Barnard, for Alameda Citizen's
Transportation Association; Thomas M. Carlson,
Wayne E. Thompson, and Frederick Bold, for City of
Richmond; Richard C. Johnson, for City of San Pablo;
John Ficklin, for City of Hayward; and Clifford C.
Anglim, and Edwin S. Howell, for City of El Cerrito;
protestants.

Carl Froerer, James Clark, Stanley D. Whitney and
John F. Hanson, Jr., for City of Alameda; William H.
Quinn, for City of Emeryville; Dudley Frost, for
Downtown Property Owners Association and the Downtown
Merchants Association; Dion R. Holm and Paul L. Beck,
for City and County of San Francisco; and Mrs. Kathie
Zahn, in propria persona; interested parties.

Wilson E. Cline, John F. Donovan, T. A. Hopkins, Ward
Hall, Timothy Canty and James Gibson, for the
Commission Staff.

O P I N I O N

Key System Transit Lines operates a unified transportation
system consisting of interurban rail lines and passenger stage lines
within and between various communities of the East Bay in the Counties
of Alameda and Contra Costa, and between the East Bay communities and
San Francisco.¹

¹Geographically, the East Bay area involved is a strip of territory
30 miles long and approximately 4 miles wide. It is bounded on the
south by Hayward and on the north by Richmond and is hemmed in by the
Contra Costa hills and the San Francisco Bay.

In this proceeding applicant seeks authority to increase² certain of its system-wide fares for the transportation of passengers.

Public hearings of the application were held in Oakland before Commissioner Potter and Examiner Lake and the matter was submitted November 2, 1950, upon the filing of briefs.³ Evidence was offered by the applicant, by eleven East Bay cities and the County of Alameda and by members of the Commission's staff.⁴ The record made consists of 1465 pages of transcript of testimony and 24 exhibits. It required 15 days of hearing.

Applicant's position, briefly stated, is that the present fares are insufficient to meet the costs necessarily incurred in conducting the system operations. In addition it alleges that the continuing decline in passenger traffic and the increased costs of operation have made the balance between adequate service and a financially sound operation untenable.

The Cities and County Group's contentions, in chief, are that the present fares are adequate to recover the costs of operation and to produce a reasonable return on a valid investment. It alleges that applicant's account of its net investment is vastly overstated; that its anticipated expenses for the future are in excess of those which may reasonably be expected; and that its forecasts of revenues under the present fares are understated.

²The present and proposed fares here in issue are set forth in the appendix attached hereto.

³The record contains evidence, developed by protestants, with respect to transactions in the securities of the parent corporation by present and former officials of the carrier. Upon consideration of all of the facts and circumstances of record applicant's motion to strike is denied.

⁴The group of cities is comprised of Alameda, Albany, Berkeley, El Cerrito, Emeryville, Hayward, Oakland, Piedmont, Richmond, San Leandro and San Pablo. The protestants will hereinafter sometimes be referred to as the Cities and County Group.

Because of the scope of this proceeding and the nature of the evidence submitted, it is desirable that a synopsis of the historical background of the applicant and its predecessor companies preface this opinion.

Historical Background

The operations conducted by Key System are the outgrowth of service commenced by predecessor companies more than 80 years ago. By consolidation in 1912 of the then existing separate companies, a unified transportation system was formed. It was known as the San Francisco-Oakland Terminal Railways.

The properties of that company were sold in 1923 under court decree of foreclosure because of the inability of the utility to meet its obligations. As a result of this sale a new corporation, the Key System Transit Company, was created. The new corporation took over the operations and ownership of nearly all of the properties previously controlled by the San Francisco-Oakland Terminal Railways.

In 1930, the properties were again sold at a judicial sale. In this instance the sale also resulted from the failure of the utility to pay interest on its debts and from the filing of a court suit in which foreclosure of mortgages was sought. This sale resulted in a reorganization of the utility as follows:

The Railway Equipment and Realty Company, Ltd., a nonutility holding company, to control the stock of 4 separate operating utilities, viz.:

- (1) Key System, Ltd., to operate the transbay rail lines;
- (2) Key Terminal Railway, Ltd., to operate the ferries and terminals in San Francisco Bay;
- (3) East Bay Street Railways, Ltd., to operate the street car lines; and
- (4) East Bay Motor Coach Lines, Ltd., to operate the motor coaches.

In 1934 the motor coach operations were transferred from the East Bay Motor Coach Lines, Ltd., to the East Bay Street Railways, Ltd. Subsequently and by several transactions these operating utilities were combined in what is now known as the Key System Transit Lines. However, the Railway Equipment and Realty Company, Ltd., relationship to its subsidiary utilities did not materially change. For rate-making purposes we consider the Railway Equipment and Realty Company and Key System Transit Lines as one company. The parent company is presently controlled by the National City Lines. Its acquisition was accomplished through the purchase of a majority of the stock in 1946.

For many years the operations were conducted with electric trains and ferry boats in the transbay service and with street cars in the East Bay area.

The train-ferry service was supplemented in 1937 when the carrier was authorized to inaugurate motor coach service via the San Francisco-Oakland Bay Bridge between San Francisco, on the one hand, and Richmond, East Oakland and Hayward, on the other hand. Ferry service was discontinued in 1939 at which time the trains commenced operating over the Bridge.

As early as 1924 the then existing company commenced replacing its street cars with motor coaches. This transition commenced with conversion of feeder lines and spread to the more heavily traveled trunk lines until March of 1948 when the changeover was completed. Since that time Key System has carried its local passengers within the East Bay area on motor coaches except those transported on the transbay interurban rail equipment.

The equipment presently utilized in conducting the unified operations consists of 88 articulated electric train units and 616 motor coaches.⁵ In addition, the operations require land and roadways,

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Of the 88 articulated train units, 37 are owned by the California Toll Bridge Authority and are leased to the carrier. In addition, applicant has available for standby emergency service 5 electric interurban cars which were acquired from the Sacramento Northern Railway Company.

trackage for train service, storage yards, office and station buildings, shops and materials and equipment and appurtenances. More than 2,000 persons are employed.

Operating Revenues and Expenses

Applicant, members of the Commission's staff and the Cities and County Group offered evidence with respect to the revenues and expenses of the carrier. They submitted and explained, in considerable detail, exhibits dealing with studies of traffic trends, revenues and expenses for past, present, and future operations. In addition, the Commission engineer submitted forecasts of revenues and expenses for a test period under alternative bases of fares.

The actual results of operations for two 12-month periods ending December 31, 1949 and March 31, 1950 and the estimated results of operations under present and proposed fares for a test year as calculated from the exhibits are set forth in the following tabulations:

Condensed Comparative Statement of Operating Revenues and Expenses Prepared on a Consolidated Basis

	Year Ended December 31, 1949	Twelve Months Ended March 31, 1950
Operating Revenues		
Other than Rents	\$14,058,019.76	\$13,749,164.96
Miscellaneous Income (Acct. 212)	4,529.47	4,304.97
Total Operating Revenues	<u>\$14,062,549.23</u>	<u>\$13,753,469.93</u>
Operating Expenses		
Maintenance and Operation	\$10,841,503.91	\$10,598,503.35
Depreciation	1,214,116.60	1,215,905.69
Amortization	45,624.60	45,624.60
Taxes Including Federal Income	1,078,667.50	1,093,108.81
Rent Expense	11,260.25	11,306.69
Rental Income	(55,001.79)	(51,177.46)
Track Removal & Repaving Costs	191,792.49	203,357.90
Total Operating Expenses	<u>\$13,327,963.56</u>	<u>\$13,116,629.58</u>
Net Operating Revenue	\$ 734,585.67	\$ 636,840.35
Operating Ratio	94.78	95.37
Net Investment in Tangible Property	\$12,778,454.78	\$12,482,740.78
Rate of Return after Income Taxes	5.75%	5.13%

Estimated Revenues and Expenses for Test Year Ending June 30, 1951,
Under Present and Proposed Fares. Before Income Taxes.

PRESENT FARES

<u>System Operations</u>	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Cities and County Group</u>
Revenues	\$12,594,013	\$12,613,520	\$13,429,880
Expenses	13,141,947	12,662,213 (2)	12,474,725
Net Operating Income	(547,934)	(48,693)	995,155
Income Betterments from "A" Line Abandonment	61,618 (1)	-----	115,518
Net Operating Income	(486,316)	(48,693)	1,070,673
<u>Local Operations</u>			
Revenues	7,424,366	7,381,680	7,834,402
Expenses	8,004,010 (1)	7,730,590	7,369,066
Net Operating Income	(579,644)	(348,910)	465,336
<u>Transbay Operations</u>			
Revenues	5,169,647	5,231,840	5,595,478
Expenses	5,137,937 (1)	4,931,623	5,105,649
Net Operating Income	31,710	300,217	489,819
Income Betterments from "A" Line Abandonment	61,618 (1)	-----	115,518
Net Operating Income	93,328	300,217	605,337

PROPOSED FARES

<u>System Operations</u>	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Cities and County Group</u>
Revenues	\$14,366,850	\$14,400,200	\$15,293,404
Expenses	12,972,634	12,494,363	12,314,213
Net Operating Income	1,394,216	1,905,837	2,979,191
Income Betterment from "A" Line Abandonment	61,618 (1)	-----	115,518
Net Operating Income	1,455,834	1,905,837	3,094,709
<u>Local Operations</u>			
Revenues	8,529,576	8,476,270	8,948,224
Expenses	7,877,432	7,610,330	7,260,298
Net Operating Income	652,144	865,940	1,687,926
<u>Transbay Operations</u>			
Revenues	5,837,274	5,923,930	6,345,180
Expenses	5,095,202 (1)	4,884,033	5,053,918
Net Operating Income	742,072	1,039,897	1,291,262
Income Betterment from "A" Line Abandonment	61,618 (1)	-----	115,518
Net Operating Income	803,690	1,039,897	1,406,780

(1) Adjustments for "A" Line abandonment included in expenses
and revenues.

(2) Corrected for error of \$3.

The variations in the estimates of revenues are attributable primarily to differences in the number of passengers estimated to be transported. The forecasts of passenger traffic for the test year under present and proposed fares as calculated by the witnesses are shown in the table below:

Estimated Passengers for Test Year Ending
June 30, 1951

<u>Local Service</u>	<u>Present</u>	<u>Proposed</u>
Applicant	70,029,700	66,430,100
Protestants	74,435,744	70,785,221
Commission Engineer	70,307,000	66,564,000.
<u>Transbay Rail</u>		
Applicant	15,402,360	14,702,460
Protestants	16,243,131	15,504,008
Commission Engineer	15,284,000	14,595,000
<u>Transbay Motor Service</u>		
Applicant	6,392,600	6,122,100
Protestants	6,977,736	6,673,888
Commission Engineer	6,548,000	6,280,000

The applicant's forecast was based upon the traffic level for a seven-month period ending April 30, 1950, annualized and adjusted to reflect a downward trend of traffic of 7 percent.⁶

Protestants' forecast was based upon a four-month study ending with May 1950. No adjustment was made to reflect traffic trends. A witness for protestants testified that in view of the unsettled world conditions and the activated defense measures no downward trend nor upward change would likely occur; although, he also said, "we can well expect an enormous expansion in the traffic in this area****."

The Commission engineer's estimate of revenues for the test year was based upon the daily average number of passengers handled

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The witness pointed out that although the trend indicated a 10 percent decrease, a decrease of only 7 percent was used.

over a 12-month period ending May 31, 1950, adjusted to reflect a decrease in the rate of decline in the trend of traffic prevailing since 1945.⁷

All of the witnesses used the same diminution factor for estimating the decrease in passengers due to the proposed increase in fares.

In proceedings of this kind, involving the fares of carriers whose operations are similar to those of applicant, the estimating of future traffic with any degree of certainty is difficult. This stems from the fact that passenger travel is influenced by a wide variety of forces, some of which are of a permanent nature, such as the riding habits of the public, while others, such as weather or seasonal factors, are only temporary although in some instances recurrent. The results thereof are fluctuations in the volume of traffic. The forces of a permanent nature can be adjusted for by the projection of traffic trends, while those of a temporary character are to a large extent reconciled when forecasts are calculated upon operations embracing a sufficiently long period of time.

In this proceeding the periods used by applicant and the protestants in estimating future traffic results are far too short to be reliable. Moreover, while the effect upon applicant's future traffic due to economic changes caused by international conditions might have some effect upon the future traffic trend, the extent thereof cannot, upon this record, be evaluated.

The estimates of future revenues developed by the Commission engineer rest upon a broader basis than those used by applicant or the protestants. His estimates appear to be equitable and will be

⁷ The adjustment was stated to be equal to 1/4 of the rate of decline in the traffic trend experienced for the latest 12-month period studied.

used for the purpose of determining the adequacy of applicant's present fares and the reasonableness of the proposed fares.

The estimates of the various witnesses relating to anticipated expenses were founded upon book costs. They were adjusted to reflect increases in the cost of labor, fuel, maintenance, tires and other operating expenses. They were also adjusted for reductions in costs which result from a decrease in the mileage operated as a result of the downward trend in traffic and diminution of passengers resulting from the proposed fares. The amount of the adjustments, however, were not in all instances the same. The principal differences in the estimates submitted by the various witnesses of the operating expenses for the test year appear in the reserves for injuries and damages and the added costs resulting from recent and prospective wage increases.

The estimates are as follows:

	<u>Under Present Fares</u>		
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Cities and County Group</u>
Injuries & Damages	\$623,276.	\$377,920	\$443,789
Cost of Wage Increases	250,000	185,880	185,880

The estimate submitted by the applicant for the costs of injuries and damages fails properly to recognize improvements in claim experience which have followed equipment betterments, the result of its safety program and other favorable factors encountered since the high accident rate of the war years. The Cities and County Group on the other hand based their estimate upon an insufficient period to reflect accurately normal conditions. The Commission engineer used a broad base reflecting conditions over a nine-year period. He attempted to give appropriate recognition to improved conditions in recent years. His estimate is superior to the other estimates and will be used.

As in the case of the estimates of the cost of injuries and damages extensive evidence was introduced with respect to the additional cost resulting from recent and prospective wage increases.⁸ The estimates submitted differ primarily because applicant included in its calculations an estimate of a prospective increase in wages to certain of its employees whereas the Commission engineer did not consider such increases.⁹ Other minor differences flow from the estimates of mileages and from the methods of calculating the number of work days for the test year.

The Commission engineer's estimate reflects the actual cost of wage increases for which the company is presently committed. Whatever additional expense which may accrue as a result of wage increases in the future is not a matter to be considered in this proceeding. The engineer's estimate will be used.

The witness' estimates of the totals of other operating expenses were relatively close. Although there were differences in particular groups of expenses, they tended to offset each other.

Certain extraordinary expenses included in the estimates of operating expenses of the applicant and the staff engineer for amortization for unrecovered investment and interest thereon and for the repaving of the streets as a result of the transition to motor bus operations were questioned by the protestants. They alleged that had the company used sound depreciation practices,

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The recent wage increase contemplates an over-all 5 cents per hour increase for a majority of the operating employees.

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Protestants used the Commission engineer's estimate without adjustment.

including provision for obsolescence, there would be no necessity for amortizing such costs. Furthermore, they asserted that if such amortization costs are to be considered as an extraordinary expense, it would not be proper for the company to earn a different rate of return on the average balance of the unrecovered investment than it should be permitted to earn on its operating plant.

The amortization of the unrecovered investment and repaving costs together with interest thereon was authorized for rate-fixing purposes as an extraordinary expense following a thorough investigation and finding by the Commission that such treatment was reasonable and equitable.¹⁰ Protestants have not, on this record, shown that the Commission's order in this matter should be modified or rescinded. We believe, however, that the expense for amortization of the unrecovered investment together with interest thereon should be adjusted to reflect income tax saving and only the net result applied as the extraordinary expense for rate making purposes. This amounts to \$136,492 in lieu of \$249,038 for the combined operations. With respect to the interest rate sought to be applied on the balance of the unrecovered investment, protestants did not establish that it was unreasonable or improper. In any event, the effect upon the rate of return by the amount of interest claimed by applicant for this purpose is insignificant.

With the adjustment hereinabove indicated for income tax saving on the expense for amortization of the unrecovered investment, the estimated results of applicant's operations, as calculated by the Commission engineer, for the future 12-month period under present and proposed fares would be as follows:

¹⁰

Decision No. 42200, in Application No. 29434, dated November 4, 1948.

PRESENT FARES

	<u>System</u>	<u>Local</u>	<u>Transbay</u>
Total Operating Revenues	\$12,613,520	\$7,381,680	\$5,231,840
Operating and Maintenance Expense	9,745,402	5,849,970	3,895,432
Expense of Wage Increases	185,880	109,860	76,020
Amortization and Interest for Unrecovered Investment and Repaving of Streets	(1) 355,649	(1) 317,773	(1) 37,876
Operating Taxes	1,091,336	695,930	395,406
Depreciation	1,171,400	651,700	519,700
Total Operating Expenses	12,549,667	7,625,233	4,924,434
Net Operating Income before Income Taxes	63,853	(243,553)	307,406
Operating Ratio	99.49%	103.30%	94.12%
Income Taxes	(See Note)		
Rate Base	12,220,700	6,104,400	6,116,300
Rate of Return	0.52%	--	5.03%

(1) Adjusted to reflect approximate income tax saving which would accrue to the carrier on the unrecovered investment.

Note: Interest of \$200,230 deductible from net operating revenues eliminates income tax liability.

() - Indicates loss

PROPOSED FARES

	<u>System</u>	<u>Local</u>	<u>Transbay</u>
Total Operating Revenues	\$14,400,200	\$8,476,270	\$5,923,930
Operating and Maintenance Expense	9,576,022	5,727,020	3,849,002
Expense of Wage Increases	182,090	107,620	74,470
Amortization and Interest for Unrecovered Investments and Repaving of Streets	(1) 355,649	(1) 317,773	(1) 37,876
Operating Taxes	1,096,656	700,860	395,796
Depreciation	1,171,400	651,700	519,700
Total Operating Expense	12,381,817	7,504,973	4,876,844
Net Operating Income before Income Taxes	2,018,383	971,297	1,047,086
Operating Ratio	85.98%	88.54%	82.32%
Income Taxes	(2) 853,168	(2) 411,371	(2) 441,797
Net Operating Income after Income Taxes	1,165,215	559,926	605,289
Rate Base	12,220,700	6,104,400	6,116,300
Rate of Return	9.53%	9.17%	9.90%
Operating Ratio after Income Taxes	91.90%	93.39%	89.78%

(1) Adjusted to reflect approximate income tax saving which would accrue on the unrecovered investment.

(2) Calculated at prevailing income tax rates.

Rate Base

The rate bases founded upon the estimated net investments developed by the applicant, the protestants, and the Commission¹¹ engineer for the mid-point of a test year are set forth below:

	<u>Applicant</u>	<u>Protestants</u>	<u>Commission Engineer</u>
Net Investment 12/31/50	\$11,687,212	\$9,165,243	\$11,719,300
Material and Supplies	480,502	480,000	501,400
Change Funds (1)	114,324	---	---
Rate Base for Test Year (2)	12,282,038	9,645,243	12,220,700

(1) Funds used by operators to make change.

(2) The similarity in the estimates of the applicant and the Commission engineer appears to result from the treatment of overheads and service lives of certain equipment.

The principal factors to be considered in determining a rate base are (a) what are the properties necessary to the operation of an adequate and efficient service, and (b) what is the value of such properties. In this proceeding we are confronted with three estimates of an appropriate rate base. The points in issue are well defined and will be considered hereafter.

The carrier's records are not such as will permit a determination of the precise value of its investment upon which a rate base could be estimated. This condition is not new. It has prevailed¹² for many years. As early as 1925 the Commission found it necessary to conduct an investigation to determine for rate-making purposes a valuation of the carrier's operating plant.¹³ Again in 1944 and in

¹¹ The Assistant Director of Finance and Accounts submitted a study of the Companies' records as of March 31, 1950, but did not develop a rate base.

¹² Apparently this results, to a large extent, from the many changes that have occurred in the financial reorganizations of the carrier.

¹³ The Commission by Decision No. 19027 dated November 9, 1927, in Application No. 11329 established for rate-making purposes the historical values of the operating plant as of December 31, 1926. This valuation will be referred to as the 1926 appraisal.

1948 adjustments in the recorded investments were found to be necessary before a reasonable rate base could be determined.

The record clearly demonstrates that applicant's estimate of its rate base as calculated for the test year is overstated. Its failure to adjust its depreciation reserve in harmony with the 1926 appraisal alone casts doubt upon the usefulness of the company's showing for the purposes of establishing a rate base.

The estimated rate base developed by protestants was founded upon contentions, many of which were not supported with probative evidence nor bottomed upon a sound foundation. For example, the amount of the adjustment in the carrier's depreciation reserve on the investment prior to 1930 was developed from data obtained from statements and memoranda furnished by the carrier.¹⁴ On rebuttal it was pointed out that the data furnished was a memorandum prepared in an attempt to compute a theoretical depreciation reserve; that it was not based upon book values of the company; that it included depreciation on items not considered in the past as depreciable by the Commission; and, that it was not what the company believed the historical depreciation reserve to be. In addition, the protestants included an adjustment for obsolescence, the amount of which was not disclosed.

Protestants' contention that certain articulated units were overvalued was developed largely on the basis of an application of a unit depreciation rate whereas the material used in the construction of the equipment was not subject to wear and tear nor depreciation to the same extent as the unit to which the depreciation rate had been

¹⁴ Statements containing different figures were furnished protestants. To determine what they believed to be a sound basis, protestants averaged these figures.

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applied. Their estimates on overvaluation of land were based largely on the parcels of land sold by the company without regard to all of its holdings. While the protestants questioned the propriety of the Commission's appraisal made almost 25 years ago, they made no thorough appraisal but relied largely on the parcels of land sold by the company which for the most part included those on which a loss had been incurred.

Admittedly, protestants' contentions with respect to non-operating properties were based on an estimate. It was developed from an incomplete examination of the facilities and books and memoranda of the carrier. The record shows that a portion of the amounts claimed is for property used or useful in the conduct of the present operations and that certain properties, although not used to the extent for which they were originally obtained, would require, if replaced to accommodate present needs, a greater investment than that now carried on the books of the company. However, it is doubtful on this record whether applicant has in all instances adjusted its accounts with respect to the properties which have become inoperative or no longer useful by reason of the transition from street cars to motor coaches. While adjustments therefor cannot be made on this record applicant's accounts should be adjusted, without further delay, to reflect its true condition.

We turn now to the rate base estimate submitted by the engineer. This study is free of most of the infirmities pointed out by protestants with respect to applicant's estimate although no detailed study was made of all the nonoperating property. It was based upon the 1926 appraisal adjusted by subsequent investigations. In addition, adjustments were made for overheads which the company had included in its estimate.

¹⁵The record does, however, indicate service lives used by the applicant in calculating the depreciation of the unit are subject to some question.

General Conclusions and Findings

The record clearly demonstrates that the revenues applicant is likely to obtain from its combined operations will be inadequate to meet the increased operating costs. This condition is created by reason of the fact that the carrier's present fares for local service within the East Bay territory do not produce sufficient revenues to cover the cost of this operation. It is apparent that these fares should be adjusted. We are not convinced, however, in view of the conflicts shown on this record, that the full measure of relief sought by applicant in the fares for local service should be granted. Under the circumstances, applicant will be authorized to establish increased fares of 13 cents cash or 2 tokens for 25 cents. No change will be authorized in the school children's fares nor in applicant's transbay fares. The fares herein authorized will provide a reasonable and sound fare structure. Based upon the estimated results of operations developed herein, the net effect of the increases authorized would result, after provision for income taxes, for the combined operations in net revenues of \$649,000, in an operating ratio of 95.19 and a rate of return of 5.31 per cent on the rate base developed by the Commission engineer. The net revenues the company would realize under the fares authorized herein, whether tested by the operating ratio or rate of return are fully justified by applicant's financial needs. Under present conditions the fares established by this decision will produce sufficient net revenues to enable applicant to operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks assumed. While the record as thus far developed is adequate to justify the increases herein authorized, it is not adequate for the purpose of determining certain questions presented in this proceeding. The Commission is of the opinion that these questions should be finally determined. Accordingly, we shall institute an investigation to that end.

It is to be noted that Key System Transit Lines does not have a monopoly of transportation in the territory which it serves but is a regulated utility competing with private automobiles and other methods of transport. The effect upon applicant's revenues from this competition cannot be measured precisely but it is evident that this situation, together with increases in the cost of operation, are contributory factors to the financial condition with which the carrier is presently faced. While fare increases tend to offset increased costs, they can well aggravate the effect of the competition and result in diminishing returns. Applicant is cautioned, therefore, that before again proposing a general fare increase it should explore all other avenues through which it may improve its financial condition. Consideration should also be given to the present zonal structure in order to induce traffic and increase revenue from the short haul and off-peak riders.

Upon consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that increased fares, to the extent indicated above, have been justified and that in all other respects applicant's proposals have not been justified. Applicant requested that if increased fares are authorized it be permitted to establish them at the earliest possible date. In view of the evident need for increased revenue for local operations authority will be granted to establish the fares herein authorized on less than statutory notice.

O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Key System Transit Lines be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and the public, increased fares of

13 cents or 2 tokens for 25 cents in lieu of the present fare of 11 cents or 10 tokens for \$1.00 for adults.

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby directed to post and maintain in its vehicles a notice of the increased fares. Such notice shall be made not less than five (5) days prior to the effective date of such increased fares and shall be maintained for a period of not less than thirty (30) days.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 31179, as amended, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire ninety (90) days after the effective date of this order.

This order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 28th day of December, 1950.

R. E. Indurand
Justice J. Calmes
Charles Powell.

Perseus Potter
Commissioners

APPENDIX

Local Fares

	<u>Present</u>	<u>Proposed</u>
Adult Single Zone Fare	Cash 11 cents Tokens 10 - \$1.00	Cash 13 cents
20-Ride School Book	\$1.00	\$1.25
Bridge Toll Plaza Ticket	11 cents	13 cents

Transbay Fares

Between San Francisco and East Bay 1st Zone	30 cents	35 cents
20-Ride Book	\$5.40	\$6.50
Children	15 cents	15 cents

Between San Francisco
and East Bay 2nd Zone

One-Way Cash	35 cents	40 cents
Two Tickets	---	75 cents
20-Ride Book	\$6.30	\$7.50
Children	20 cents	20 cents

Between San Francisco and
East Bay 3rd Zone

One-Way Cash	45 cents	50 cents
Two Tickets	---	90 cents
20-Ride Book	\$8.10	\$9.00
Children	20 cents	20 cents

Applicant also maintains interzone cash fares of 10 cents for each zone traveled when full interzone fare is paid at one time. No change is proposed in these fares.