

ORIGINAL

Decision No. 45363

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )	
of the CALIFORNIA STREET CABLE )	
RAILROAD COMPANY, a corporation, )	Application No. 31840
for an order authorizing an )	
increase in rates. )	

Appearances

Edward M. Berol and Emmet B. Hayes, for California Street Cable Railroad Company, applicant.  
 Dion R. Holm and Paul Beck, for City and County of San Francisco, interested party.  
 T. A. Hopkins, for the Engineering Staff of the Transportation Department of the Commission.

O P I N I O N

California Street Cable Railroad Company operates a street railroad system within the City and County of San Francisco. It seeks authority to establish increased fares.

Public hearing of the application was had at San Francisco on January 25, 1951, before Commissioner Potter and Examiner Lake.<sup>1</sup>

Applicant conducts its operations over two routes which are designated as the California Street line and the Hyde Street line. Service is performed by cable cars which are operated on rails through contact with underground cables actuated from a central power station located in the service area.<sup>2</sup> This carrier competes for traffic with the San Francisco Municipal Railway which is the primary

<sup>1</sup> Also set for hearing on that date was Application No. 31892 in re: Application of California Street Cable Railroad Company for authority to substitute motor buses for cable operations. At applicant's request this matter was continued without receipt of evidence.

<sup>2</sup> Due to the construction of a tunnel on Broadway Street, cable car operations on the Hyde Street line north of Sacramento Street have been temporarily discontinued. It is expected that such service will be restored about May 1, 1951. Substitute bus service has been performed by Applicant.

passenger agency in the City of San Francisco. Both the applicant and the municipal carrier accord free intercompany transfer privileges to their patrons.

Applicant's present fare is 10 cents.<sup>3</sup> Authority is herein sought to establish increased fares of 15 cents cash, 2 tokens for 25 cents and 9 tickets for \$1.00.

Applicant's fares were last increased in 1947. It is alleged that since that time the cost of labor and other operating expenses have substantially increased while the volume of traffic has declined. It is contended that despite curtailment of all unnecessary expenses the existing fare structure is insufficient to enable the carrier to recover its costs of operation. It is further alleged that from 1948 to and including 1950 substantial operating losses were experienced which have seriously depleted the earned surplus and threaten imminently to impair the ability of the carrier to continue to provide a service to the public.

Evidence was offered by officials of the applicant, by a certified public accountant and by an engineer from the Commission's Transportation Department. Exhibits were submitted consisting of balance sheets, rate base statements, traffic flows and trends and statements of revenues and expenses for past, present and future operations. In addition the Commission engineer submitted an alternative suggestion for financial relief which contemplated changes in the present arrangement with the San Francisco Municipal Railway for free exchange of transfers.

The figures for past operation are set forth in the table below. They were taken from the exhibits:

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<sup>3</sup> Reduced fares are available for school children. No change in these fares is proposed.

\*RESULTS OF PAST OPERATIONS

	<u>1948</u>	<u>1949</u>	<u>1950</u>
Number of Passengers	7,041,353	6,399,548	5,999,605
Operating Revenue			
Passenger	\$705,485.30	\$646,282.30	\$601,490.50
Advertising	2,994.84	4,364.53	22,884.57
Total Operating Revenue	\$708,480.14	\$650,646.83	\$624,375.07
Operating Expenses			
Way and Structures (1)	\$ 43,850.37	\$ 48,459.21	\$ 47,811.32
Equipment	53,498.35	52,834.69	50,750.56
Power (1)	89,313.18	81,828.52	62,719.90
Transportation	398,569.64	418,492.95	388,804.63
General and Miscellaneous	49,178.82	43,835.48	43,278.87
Injuries and Damages	77,892.36	54,044.62	62,297.23
Operating Taxes	19,227.34	18,536.57	24,063.40
Total Operating Expenses	\$731,530.06	\$718,032.04	\$679,725.91
Operating Income	<u>(\$23,049.92)</u>	<u>(\$67,385.21)</u>	<u>(\$55,350.84)</u>
Nonoperating Income	\$3,615.42	\$17,584.14	\$4,039.11
Nonoperating Loss	\$563.86	\$673.02	--
Net Income	<u>(\$19,998.36)</u>	<u>(\$50,474.09)</u>	<u>(\$51,311.73)</u>

\* The figures shown are those submitted by applicant. A study showing almost identical results was submitted by the Commission engineer.

(1) Includes depreciation on structures and equipment.

           - Indicates Loss

The estimates for future operations are depicted in the table which follows:

\*Estimates of Future Operations for Test  
Year Ending February 29, 1952

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Applicant</u>	<u>Commission Engineer</u>
Number of Adult Revenue Passengers	5,700,000	5,780,750	5,415,000	5,491,700
Operating Revenues				
Adult Passenger	\$570,000	\$578,075	\$650,750	\$669,660
Student Passenger	1,530	1,500	1,530	1,500
Post Office	(1)	3,500	(1)	3,500
Advertising	11,000	10,000	11,000	10,000
Rentals	2,100	2,100	2,100	2,100
Total Operating Income	\$584,630	\$595,175	\$665,380	\$686,760
Operating Expenses				
Ways and Structures	\$ 35,960	\$ 36,010	\$ 35,960	\$ 36,010
Equipment	57,100	54,850	57,100	54,850
Power	70,350	71,300	70,350	71,300
Transportation	376,627	377,850	376,627	377,850
General and Miscellaneous	61,676	62,280	(2)65,676	(2)66,783
Injuries and Damages	30,000	20,000	30,000	20,000
Operating Taxes	26,935	28,288	26,935	29,130
Depreciation	13,695	21,749	13,695	21,749
Total Operating Expenses	\$672,343	\$672,327	\$676,343	\$677,672
Net Income Before Income Taxes	( <u>\$87,713</u> )	( <u>\$77,152</u> )	( <u>\$10,963</u> )	\$9,088
Operating Ratio	115.00%	112.96%	101.65%	98.62%
Income Taxes		--		\$2,272
Net Operating Income After Income Taxes		--		\$6,816
Rate Base	\$876,299	\$255,870	\$876,299	\$255,870
Rate of Return After Income Taxes		--		2.66%
Operating Ratio After Income Taxes		112.96%		99.00%

\* Based upon full cable operation.

(1) Included in Adult Passenger Revenue

(2) Includes an increase of approximately \$4,000 to cover increase in insurance.

( ) - Indicates loss.

The differences in the revenue estimates of the witnesses stem largely from the methods employed in calculating the number of passengers to be handled during the test year and the distribution of these passengers among the three proposed fares.<sup>4</sup> Estimated expenses were calculated contemplating full cable operation at current payroll and other operating costs. No allowance was made for deflection of traffic to the municipal line although the engineer testified that a deflection of less than 2 percent from applicant's line would wipe out all of the profit shown. Moreover no consideration was given to the fact that operations north of California Street have been discontinued. The engineer stated that in his opinion applicant would continue to lose money under the proposed fares but not to the extent that it is losing money under the present fares. By using the engineer's estimates of anticipated revenues, expenses and rate base when adjusted in light of his testimony ... his study would show that applicant will not earn its costs of operation under the proposed fares.

In determining the rate base the Commission engineer assumed that the properties of applicant would pass out of existence or become fully depreciated under present ownership not later than December 31, 1955, this being the date of termination of the present franchise. His assumption, he said, was based upon the properties being acquired by the City and County of San Francisco or that losses suffered would be such as to cause bankruptcy. For these reasons he adjusted the depreciation reserve by shortening the estimated life of certain properties from that estimated by applicant and adjusted the depreciation expense accordingly.

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<sup>4</sup> Applicant's accountant estimated the distribution to be 10 percent at the 15-cent fare, 40 percent at the 2 for 25-cent fare and 50 percent at the fare of 9 tickets for \$1.00 whereas the Commission engineer estimated a use factor of 10 percent, 50 percent and 40 percent, respectively.

The assumption that the company will pass out of existence in 1955 is not supported by the record.

The president of the company testified that all economies that were consistent with safe operations had been effected. Painting and repair work had been reduced to an absolute minimum. Schedules had been rearranged permitting a reduction in operating personnel. His salary, he stated, had been discontinued and the positions of general manager and superintendent of transportation had been combined. Further economizing, he testified, could not be done without "doing some damage to the public service that we are giving and also to the safety of the riding public." He asserted that unless the fares herein sought to be established were authorized his company would have to abandon operations or go into bankruptcy.

The witness pointed out that under the present arrangement for the exchange of free transfers his company is carrying approximately 350,000 more passengers annually than those carried by the municipal line.<sup>5</sup> He testified that negotiations were pending with officials of the city line for consideration of an arrangement whereby the municipal railway would pay his company 5 cents for each transfer collected in excess of those collected by the cable car company, and that unless this matter was successfully negotiated it would be necessary to abrogate the contract. The latter course of action, he alleged, would cause the riding public to suffer tremendously and that it would only be done as a last resort.

The Commission engineer testified that if a 5-cent excess transfer arrangement could be arranged it would produce approximately \$25,000 in additional revenue. In the event the contract were canceled

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<sup>5</sup> The Commission engineer was of the opinion that the difference was about 500,000 passengers annually.

approximately 230,000 passengers per year would be lost. He further testified that in order to maintain sufficient revenues to return out-of-pocket losses it would be necessary to regain approximately 71,000 passengers.

No one opposed the granting of the application. The chief valuation and rate engineer for the City and County of San Francisco participated in the cross-examination of the witnesses. The city and county did not offer any testimony.

The record is clear that applicant's revenues from its present fares are insufficient to meet current operating costs. It is apparent that upon consideration of all of the facts of record, and we hereby find that the earnings which would be realized under the proposed fare structure would not return the costs of operation. Furthermore, the municipal railway has recently commenced emergency operations, of which we take judicial notice, which were made necessary due to the discontinuance of a portion of applicant's Hyde Street line pending construction of the Broadway Street tunnel. Should it be necessary for this service to continue for an appreciable length of time applicant will face additional losses.

Applicant's position, we believe, is perilous. If it is to continue to accord service to the public and remain solvent in the face of existing costs of operation, declining traffic and the prevailing competition, further losses must be avoided. To this end all avenues of bettering the financial position should be explored. The negotiation of a more satisfactory contract with the municipal line with regard to the present transfer arrangement is a matter for the management to pursue.

Upon careful consideration of all of the facts and circumstances of record the Commission is of the opinion and finds that the

fares which are sought in the above-numbered application are justified. The applicant requested that, should the sought authority be granted, it be permitted to establish the increased fares on less than statutory notice and that the order herein be issued to become effective on five days' notice. In view of the evident need for increased revenues this authority will be granted also.

O R D E R

Public hearing having been had in the above-entitled application, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that the California Street Cable Railroad Company be and it is hereby authorized to establish on not less than two (2) days' notice to the Commission and to the public fares of 15 cents cash, 2 tokens for 25 cents and 9 tickets for \$1.00.

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby directed to post and maintain in its vehicles a notice of the fares herein authorized. Such notice shall be made not less than two (2) days prior to the effective date of such fares and shall be maintained for a period of not less than thirty (30) days.

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 five (5) days after the date hereof.

Dated at San Francisco, California, this 14<sup>th</sup> day of February, 1951.

*R. E. Smith*  
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*Harold P. Hills*  
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*George H. Patten*  
*John C. Mitchell*  
Commissioners