

Decision No. 47830**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC ELECTRIC RAILWAY COMPANY,)
 a corporation, and LOS ANGELES TRANSIT)
 LINES, a corporation, for authority to) Application No. 33317
 eliminate tokens and make certain other)
 changes in fares.)

In the Matter of the Application of)
 GLENDALE CITY LINES, INC., requesting)
 authority to eliminate use of tokens) Application No. 33628
 in present joint fare arrangement with)
 Pacific Electric Railway Company.)

Appearances

(See Appendix "A" hereof for list of appearances
 in these proceedings.)

O P I N I O N

By these applications Pacific Electric Railway Company,
 Los Angeles Transit Lines, and Glendale City Lines seek authority
 to increase certain passenger fares on less than statutory notice.

Public hearings were held before Commissioner Potter and
 Examiner Bryant at Los Angeles on August 13, 14, 15, 18 and 19, 1952.
 Advance notices of the hearings were posted in applicants' vehicles,
 were published in newspapers of general circulation in the areas
 served, and were sent to cities, organizations and persons believed
 to be interested. The matters were submitted on August 19, 1952,
 and are now ready for decision.

Pacific Electric is engaged in the business of transporting
 passengers and freight by rail and highway between points within the
 counties of Los Angeles, Orange, Riverside and San Bernardino.
 Only the passenger operations within the metropolitan area of

Los Angeles County are directly involved herein. Los Angeles Transit Lines transports passengers over numerous and extensive routes serving a large part of the Los Angeles metropolitan area. Glendale City Lines, Inc. serves the city of Glendale and adjacent areas in the cities of Los Angeles and Burbank.

The fares of the applicant companies are based upon fare zones. For transportation within any one zone the one-way adult fare is 15 cents cash or one token.¹ The tokens are sold at the rate of two for 25 cents. One token is acceptable in lieu of the initial 15 cents in payment of interzone fares of 20 cents or more. The applicants have various intracompany and intercompany transfer arrangements. Throughout much of the area served jointly by Pacific Electric and Los Angeles Transit Company there is a universal fare structure under which transfers, issued without additional charge, allow passengers to use the various lines of both companies in any combination. The applicants also have various commutation and school fares, none of which are proposed to be changed.

By these applications Pacific Electric and Los Angeles Transit Lines would discontinue the sale and use of tokens. In addition, they would establish a charge of two cents for each transfer issued, whether for intracarrier or intercarrier transportation, except that Pacific Electric would not charge for transfers within some outlying areas. No change is proposed in any of the local fares of Glendale City Lines, Inc. That company is involved in these proceedings only to the extent that it participates in joint fares with Pacific Electric. As to those fares it is asked that the sale and use of tokens be discontinued.

¹ There are some exceptions to the application of token fares insofar as Pacific Electric is concerned. Interurban fares of that company, for travel beyond the local areas involved in these proceedings, are not referred to herein.

Applicants Pacific Electric and Los Angeles Transit Lines allege that, since their present fares were established in January, 1952, they have been required to make substantial increases in the wages of their employees in order to avoid a strike and disruption of service, that salary increases have been granted to the supervisory forces in order to maintain a wage differential, and that material costs and various other items of operating expense have continued to increase substantially.² These applicants represent that as a result of increased costs they are unable to continue to operate under the existing fares without incurring serious losses and without detriment to the service to the public. They urge that the requested fares be authorized at the earliest possible date in order that they may continue to offer a reasonable and adequate service to the public and improve their earning position. Los Angeles Transit Lines seeks thereby to earn a reasonable return upon the value of its assets devoted to public use. Pacific Electric alleges the proposed rates will not even pay its operating expenses and taxes, and that hence any question of return on its investment is of little immediate importance.

Glendale City Lines, Inc., as hereinbefore indicated, is involved in these proceedings to a minor extent only. That company does not plead the necessity for greater revenues, but says that the sought fares are designed to permit a uniform joint-fare structure and to avoid inequities which would otherwise result. It estimates that the joint-fare adjustment would increase its gross annual revenues by only \$3,000; and that net earnings would be increased by \$2,000 or less.³

² The present fares were authorized by Decision No. 46618, dated January 4, 1952, in Applications Nos. 32334 and 32335. Those proceedings were submitted on November 19, 1951. The fares became effective on January 24, 1952. The entire record in those proceedings was incorporated herein by reference.

³ For the six months from January 1 to June 30, 1952, Glendale City Lines, Inc. reported gross operating revenue of \$151,585.

Approximately 30 witnesses testified during the five days of public hearing in these proceedings, and more than a score of exhibits were introduced into the record. In addition to the several witnesses who testified on behalf of the applicants, the staff of this Commission introduced evidence through six of its transportation engineers, the City of Los Angeles introduced exhibits and oral testimony through the chief engineer and general manager of its Department of Public Utilities and Transportation, and numerous public witnesses testified on behalf of individuals and various civic and community groups. Other parties participated in examination of the witnesses or filed petitions or resolutions.

It was the position of the City of Los Angeles, supported by the City of Inglewood, that the Commission should not authorize elimination of the tokens or the establishment of a charge for transfers, although some increase in the price of tokens may be justified. The City of Maywood, by resolution, opposed the granting of the full increase sought by the applicants. In general the various other individuals and organizations were opposed to any increase in fares.

Numerous suggestions were offered for zone revisions and other operating changes. Some of these suggestions appear to have merit, but they are not germane to these applications. One minor zone change will be approved hereinafter solely in the interest of public safety, but it would be inappropriate to consider zone revisions of substance without advance notice to the persons who would be affected thereby. In the meantime, members of the Commission's staff will be assigned to make a field investigation and a full report on these matters. Los Angeles Transit Lines is hereby directed to cooperate with and assist the staff to this end. The basic issue herein is whether or not, and to what extent if at all, increases in fares are justified in accordance with Section 454 of the Public Utilities Code and Article XII, Section 20, of the Constitution of this State. That is the issue to which we shall direct our attention in these proceedings.

Several expert witnesses introduced and explained detailed studies of the operations of Pacific Electric Railway Company and Los

Los Angeles Transit Lines. Collectively these studies included statements of past, present, and anticipated revenues, expenses, and rate bases, supported by analyses of travel trends, sources of operating revenues, traffic checks, operating schedules, vehicle inventories, earning requirements, and numerous other related and nonrelated data. Exhibits of this nature were offered by Pacific Electric Railway Company and Los Angeles Transit Lines, by the staff of this Commission, and by the City of Los Angeles.

The operating statements of these applicants for recent past periods, as summarized from the exhibits, are shown in the following table:

TABLE 1
OPERATING RESULTS FOR PAST YEAR

Item	Pacific Electric Railway Company (Local Operations) Year 1951	Los Angeles Transit Lines 12 Mos. ending May 31, 1952
Operating Revenues	\$ 7,908,653	\$23,147,805
Operating Expenses	9,227,495	20,446,710
Operating Income	\$(1,318,842)	\$ 2,701,095
Income Taxes	-	1,043,710 ϕ
Net Operating Income	\$(1,318,842)	\$ 1,657,385
Allowance for Amortization and Interest	-	167,600 #
Net Income	\$(1,318,842)	\$ 1,489,785
Rate Base (Historical Cost)	\$11,571,072	\$21,405,000
Rate of Return	-	6.96%
Operating Ratio (After Income Taxes)	116.68%	93.56%
() Indicates Loss		

ϕ As reported on monthly operating reports.

Calculated by Commission staff.

Note: Pacific Electric figures are from Exhibits Nos. 2 and 4, submitted by that company. Los Angeles Transit Lines Figures are from Exhibit No. 7, submitted by the Commission's staff, and show the company's book record except as otherwise indicated above.

Under conditions of general economic instability the operating experience of a past year may not be a satisfactory indication of results for the future. Both companies adjusted their fares in January, 1952, and within recent months they have experienced substantial increases in wages and other items of operating expense. For these and other reasons the operating results anticipated by the witnesses for the coming year differ materially from those reported for the past.

All of the estimated operating results for the future rate year were related to the 12 months from October 1, 1952, through September 30, 1953. Studies of Pacific Electric were submitted by that carrier and by the Commission's staff. The City of Los Angeles did not introduce estimates for that company. The City witness made the following explanation: "We did make a study of Pacific Electric. We did not complete it because it became apparent that any reasonable, in my opinion, token rate would not much more than put them in the black." Table 2, which follows, summarizes the forecasts of record as they relate to Pacific Electric Railway Company.

TABLE 2
PACIFIC ELECTRIC RAILWAY COMPANY
 (Local Passenger Operations)
12 Months Ending September 30, 1953

Item	As Estimated by Pacific Electric		As Estimated by Commission Staff	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
<u>Operating Revenues</u>				
Passenger	\$7,728,000	\$8,341,000	\$7,734,000	\$8,461,000
Other	283,800	280,900	316,000	316,000
Total Operating Revenues	\$8,011,800	\$8,621,900	\$8,050,000	\$8,777,000
<u>Operating Expenses</u>				
Ways and Structures	\$ 283,674	\$ 281,115	\$ 348,500	\$ 348,500
Equipment Maintenance	1,629,992	1,619,690	1,606,100	1,597,200
Power	200,470	198,575	194,300	192,300
Conducting				
Transportation	4,860,187	4,811,093	5,202,500	5,163,000
Traffic	81,027	80,209	86,700	86,700
General	1,082,567	1,071,633	1,194,200	1,189,700
Taxes - Operating	595,585	601,568	620,500	627,700
Total Operating Expenses	\$8,733,502	\$8,663,883	\$9,252,800	\$9,205,100
Net Operating Income	\$ (721,702)	\$ (41,983)	\$ (1,202,800)	\$ (428,100)
Operating Ratio	109.01%	100.49%	114.94%	104.88%
Historical Rate Base	\$11,244,337	\$11,244,337	Not shown	Not shown

() - Indicates loss.

As may be seen from the foregoing tables, the expert witnesses were in agreement that the local operations of Pacific Electric are being conducted at a net operating loss and that the proposed fares would not restore those operations to a profitable basis for the future rate year. Uniform fares and fare zones are maintained, and this Commission will not authorize a fare increase which would return unreasonably high earnings to either carrier. For these reasons it is evident that the operating results of Los Angeles Transit Lines will be the principal determinant of the fares which may be found justified in these proceedings.

Future operating results of Los Angeles Transit Lines were estimated by that company, by the Commission staff, and by the City of Los Angeles. The following Table 3 sets forth the anticipated experience (1) under present fares and (2) under the fares proposed by the applicants. Estimated operating results under several alternative fare bases will be shown in a later table.

TABLE 3

LOS ANGELES TRANSIT LINES
Estimated Results of Operation
for Year Ending September 30, 1953
Under Present and Proposed Fares

Item	Under Present Fares	Under Proposed Fares
<u>AS ESTIMATED BY</u>		
<u>LOS ANGELES TRANSIT LINES</u>		
<u>Operating Revenues</u>	\$23,880,148	\$26,584,282
<u>Expenses</u>		
Rail & Trolley Coach:		
Way & Structures	\$ 860,500	\$ 860,500
Equipment Maintenance	1,076,900	1,056,100
Power	814,900	800,800
Conducting Transportation	4,567,100	4,481,400
Traffic	114,300	114,300
General & Miscellaneous	2,407,700	2,438,600
Motor Coach:		
Equipment Maintenance	1,712,100	1,690,500
Transportation Expense	4,273,600	4,204,900
Traffic	160,400	160,400
Insurance & Safety	807,300	832,700
Administrative & General	833,500	833,500
Operating Rents	14,800	14,800
System:		
Depreciation Expense	2,210,000	2,210,000
Operating Taxes	1,656,000	1,702,400
Wage Increase Cost	1,494,300	1,478,200
Amortization of Track Removal	76,400	76,400
<u>Total Expenses</u>	<u>\$23,079,800</u>	<u>\$22,955,500</u>
Operating Income	\$ 800,348	\$ 3,628,782
Interest Income	9,054	9,054
	<u>\$ 809,402</u>	<u>\$ 3,637,836</u>
Taxes on Income	394,598	2,048,901
Income After Taxes	\$ 414,804	\$ 1,588,935
Operating Ratio (After Income Taxes)	98.3%	94.0%

TABLE 3 (Continued)

Item	: Under : Present Fares :	: Under : Proposed Fares :
<u>AS ESTIMATED BY COMMISSION STAFF</u>		
<u>Operating Revenues</u>	\$24,270,000	\$27,565,000
<u>Operating Expenses</u>		
<u>Rail & Trolley Coach</u>		\$ 9,889,300
Way & Structures	\$ 771,500	
Equipment	1,121,400	
Power	844,500	
Conducting Transportation	5,057,400	
Traffic	7,500	
General	2,240,200	
<u>Motor Coach</u>		8,262,500
Equipment Maint. & Garage Expense	1,752,000	
Transportation Expense	4,724,900	
Traffic & Advertising	75,400	
Insurance	987,600	
Administrative & General	827,500	
Rents	15,000	
<u>System</u>		
Depreciation	2,198,000	2,198,000
Operating Taxes	1,695,800	1,755,900
<u>Total</u>	\$22,318,700	\$22,105,700
Operating Income	\$ 1,951,300	\$ 5,459,300
Income Taxes	997,300	3,266,600
Net Operating Income	\$ 954,000	\$ 2,192,700
Allowance for Amort. & Interest	167,600	167,600
Net Income	\$ 786,400	\$ 2,025,100
Rate Base	\$18,691,000	\$18,691,000
Rate of Return	4.21%	10.83%
Operating Ratio (After Income Taxes)	96.76%	92.65%

TABLE 3 (Concluded)

Item	Under : Present Fares :	Under : Proposed Fares :
<u>AS ESTIMATED BY CITY OF LOS ANGELES</u>		
<u>Operating Revenues</u>	\$24,439,000	
<u>Operating Expenses</u>		
Rail	\$ 7,361,800	
Trolley Coach	1,120,300	
Motor Coach	6,903,100	
Depreciation	2,185,000	
Amortization-Retirements	140,100	
Insurance	1,701,300	
Operating Taxes	1,703,100	
Wage Increases Incl. Taxes & Ins.	1,485,300	See Note
Addtl. for Advert. & Serv. Improv.	<u>350,000</u>	
Total - Excl. Income Taxes	\$22,950,000	
Net Oper. Income (Before Inc. Taxes)	\$ 1,489,000	
Interest Income (\$400,000 Bond)	<u>10,000</u>	
Total Income (Before Inc. Taxes)	\$ 1,499,000	
Income Taxes	<u>766,360</u>	
Net for Return	\$ 732,640	
Operating Ratio (After Income Taxes)	97.0%	

Note: The City of Los Angeles did not submit an estimate of operating results under the fares proposed by the applicants. The City's estimates of results under alternative fares are shown in a following table.

As may be seen from Table 3, direct comparison between the several estimates may not readily be made: For example, wage contracts which became effective on June 1, 1952, will increase the operating expenses of Los Angeles Transit Lines by amounts estimated to total nearly \$1,500,000 annually.⁴ The Commission staff made its estimates accordingly, but neither the company nor the City of Los Angeles developed individual accounts in accordance with the

⁴ For noncontract employees the wage increases became effective on March 1, 1952.

present wage levels. Instead their estimates of operating expenses were based on the lower wages prevailing prior to June 1, 1952. To the figures thus developed they added the increased wage costs as a lump sum, without regard to the individual accounts. Reference to the table will disclose other respects in which the estimates vary in form and content, thus making comparison of many items impracticable. However, the major differences will be discussed.

It will be observed that there are substantial differences in the estimates of operating revenues as set forth in Table 3. The company's estimate is lower than that of either the Commission staff or the City of Los Angeles. Revenues under the proposed fares were estimated by the company at \$26,584,282 and by the Commission staff at \$27,565,000.⁵ This difference results primarily from matters of judgment concerning the trend of travel for the future year, and particularly concerning the extent to which the higher fares would cause patrons to forego the service. The company's forecast was based upon an annual decline of five percent in the number of adult riders and eight percent in the number of school students. Its witnesses offered reasons why, in their opinion, the actual downtrend will be even greater. The City of Los Angeles used a downtrend of three percent, and its witness thought that the downtrend might be even less. The Commission staff did not express its estimate as a percentage of annual decline. Its figure was about midway between that of the company and the city, as shown in the following comparison:

Estimated Adult Revenue Passengers Under Present Fares,
Excluding Post Office and School.

Los Angeles Transit Lines	159,951,818
Commission staff	161,961,800
City of Los Angeles	163,473,083

⁵ The City of Los Angeles did not estimate operating revenues under the proposed fares.

With respect to the deflection of passengers by the higher fares, the company used a formula based upon 35 percent of the percentage increase in fares. The figure of 35 percent was developed as a judgment figure upon consideration of the reported experience of transit companies in other states. The Commission staff used a corresponding factor of 25 percent, based principally upon the experience of California companies.

The resulting variation in operating revenues constitutes one of the major differences in the estimates. At the proposed fares the difference in total operating revenues is nearly \$1,000,000.⁶ Forecasts of the number of passengers to be transported during a period in the future, where increased fares are under consideration and where economic conditions and various other factors are uncertain, necessarily depend upon judgment. As is usual in proceedings of this nature, the experts are not in agreement. Without indulging in extended discussion, it will suffice to say that from consideration of all of the evidence it is our conclusion that the Los Angeles Transit Lines has been unduly conservative in its estimate of passengers to be carried and operating revenues to be received during the coming year. The revenue forecasts of the Commission's staff appear to be reasonable and well substantiated. They will be adopted herein.

The company's estimate of operating expenses as a whole is higher than that of either the Commission staff or the City of

⁶ The total operating revenues were estimated as follows:

	<u>Present Fares</u>	<u>Proposed Fares</u>
Commission staff	\$24,270,000	\$27,565,000
Los Angeles Transit Lines	<u>23,880,148</u>	<u>26,584,282</u>
Difference	\$ 389,852	\$ 980,718

Los Angeles. As hereinbefore stated, the variations in many individual items are obscured for the reason, among others, that the increased wage cost was distributed to the several accounts in one case and stated as a lump sum in the other cases. Material differences are noted in the accounts for public liability and property damage insurance, ways and structures, depreciation, advertising, and various other items. Some of the differences tend to offset one another and there is no need to discuss all of them. The record is convincing that the staff estimates, except as they relate to traffic promotion and public information, make adequate provision for all necessary and reasonable expenses of operation.

A thorough and constructive campaign of traffic promotion by Los Angeles Transit Lines would be of benefit to the public. The company estimate for this purpose is substantially less than one percent of the anticipated revenues. We conclude that the company estimate is reasonable if the money is to be expended actually and properly to stimulate patronage, to bring to public attention the company's routes, schedules, and services, and for other legitimate purposes. With this understanding the Commission will include an allowance of \$200,000 for these activities.

*Diagram
Changes*

A principal factor affecting operating expenses is the number of miles to be operated by the vehicles during the rate year. The annual mileage as of May 31, 1952, as estimated by the Commission staff, was 34,905,100, developed as follows:

Street Car	13,429,400
Trolley Coach	2,763,600
Motor Coach	18,712,100
System Total	<u>34,905,100</u>

The estimates for the future year, as set forth in Table 3, were predicated upon the following mileages:

	<u>Vehicle Miles</u>	
	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Los Angeles Transit Lines	34,385,618	33,652,911
Commission staff	34,567,900	33,918,800
City of Los Angeles	35,134,102	-

It will be observed that the staff estimate and the city estimate are higher than that of the company. The city, in addition, included an amount of \$350,000 under present fares, and of \$500,000 under alternate fares, to cover (among other things) service improvements and advertising.

Additional vehicle miles increase cost, and must be reflected to some extent in the fares. They likewise tend to improve service. The objective must be to render the best practicable service to the greatest possible number of patrons at the lowest reasonable fares which will produce the necessary revenues. The public witnesses who testified in these proceedings on behalf of individuals and various civic and community groups were concerned primarily with matters of service. The representative of the City of Los Angeles stated that "if funds are available the company should make effective all practicable service improvements at the earliest possible time." In determining the revenue needs of Los Angeles Transit Lines herein it will be the Commission's purpose to authorize reasonable fares sufficient to enable the company to render an adequate and efficient service which will promote the safety,

health, comfort and convenience of its patrons, employees and the public.⁷

No rate base is set forth in applicant's estimate as set forth in Table 3. The company submitted two rate bases. A rate base of \$23,453,000 was termed an "historical cost" estimate, and one of \$33,740,000 was termed "historical cost adjusted for present dollar values." In the development of the latter figure the company added more than \$10,000,000 to the net figure as follows:

	<u>Historical</u>	<u>Adjusted</u>
Road and equipment	\$50,174,000	\$76,734,000
Depreciation Reserve	<u>30,079,000</u>	<u>46,352,000</u>
Road and equipment less reserve	\$20,095,000	\$30,382,000

The adjustments were not fully explained, but it was stated that the adjusted figures "represent in current dollars the investments devoted to public service."

The Los Angeles Transit Lines argued that the higher rate base should be given primary weight, and its witnesses discussed various other methods of measuring earning requirements. Its principal witness urged that "the earnings allowed must be sufficient to permit the financing required to replace at inflated prices the property necessary to maintain service to the public." He said that "as a result of inflation a new approach to measurement of fair

⁷ See Public Utilities Code, Section 451. The present record indicates that service provided by the company in 1952 has conformed to its contemplated mileage estimate as adopted by the Commission in Decision No. 46618, *supra*. If it should appear, however, after the Commission has determined what fare increase is justified, that it is a company's policy to curtail service in order to recover any revenue difference between the sought fares and the authorized fares, this Commission has ample authority to require that adequate service standards be maintained. (In re Pasadena City Lines, Inc., Decision No. 46452, dated November 20, 1951, in Application No. 32320, 51 Cal. P.U.C. 248, 258.)

return is necessary if gradual confiscation of the investment is to be avoided." He submitted data designed to show that in the years from 1945 to 1951 the earnings of Los Angeles Transit Lines have declined in relation to the earnings of industrial corporations and utility corporations, in relation to the average hourly earnings of manufacturing employees in the Los Angeles area, and in relation to the consumers price index for the Los Angeles area as supplied by the Federal Bureau of Labor statistics. In this connection he offered earnings-price ratio comparisons for stocks of local transit companies on the one hand and electric and gas companies on the other hand to show that investors demand a greater percentage return from the transit industry in light of the greater risks in the transit business.

The company's rate base estimates are clearly excessive by accepted standards. Even its so-called "historical cost" estimate includes some land at current values, and its statement of average depreciated investment in road and equipment is nearly \$3,000,000 greater than the corresponding figure submitted by the Commission's staff. In addition, both rate bases submitted by the company include \$356,000 for remaining unamortized payment to the City of Los Angeles for retired tracks, \$240,000 for investment in stock of the Transit Casualty Company, and \$1,000,000 representing "funds necessary for credit stability and banking services." The unamortized track retirements do not belong in the rate base. For rate purposes, interest on the unamortized balance may be allowed as a deduction from net operating income, as was done in the staff estimates. The other two items - stock investment and working cash - will not be allowed in the rate base for reasons discussed in Decision No. 46618, supra.

Upon the present record it is concluded that the estimate of \$18,691,000, as submitted by the Commission's staff, includes all of the rate base elements upon which the net income of Los Angeles Transit Lines should be measured for the year ending September 30, 1953. This Commission is cognizant of the special risks in the transit industry and of the many financial problems which it shares to some extent with other utilities in a period of inflation. However, the applicants are advised that there is no necessity to inflate or expand the rate base for the purpose of lowering the apparent rate of return to any preconceived level. Financial risk is one of the factors to be considered in determining the reasonableness of earnings, whether measured by the annual rate of return on the rate base or by any other method. It is always a concern of this Commission that utilities shall have reasonable earnings sufficient to sustain adequate public services.

The record is clear that some adjustment in fares is justified. Under the most favorable estimate, that submitted by the Commission staff, the operating ratio at present fares would be nearly 97 percent, and the rate of return would be 4.21 percent. Under the other estimates the operating ratio would be even higher and the rate of return lower. The best interests of the public as well as the company require that this utility have a greater margin of financial safety under present circumstances.

Turning to the estimated results under the proposed fares, it will be seen from the foregoing Table 3 that the net income, after taxes, is estimated by the company at \$1,588,935, and by the Commission staff at \$2,025,100. On the rate base of \$18,691,000 the rates of return would be 8.50 percent and 10.83 percent, respectively. The operating ratio, after provision for income taxes, would be 94 percent under the company estimate and 92.65 percent under the staff estimate. Adjusted for advertising, the staff estimate would develop a net income of \$1,924,242, a rate of return of 10.3 percent, and an operating ratio, after taxes, of 93 percent. Clearly the proposed fares would return revenues greater than would be reasonable or justified upon the evidence of record.

The applicants did not suggest any alternative to their fare proposal. As hereinbefore indicated, alternative fares were submitted for consideration of the Commission, but without specific recommendation, by the City of Los Angeles and by the Commission staff. A total of five alternatives were offered. None of them would provide a charge for transfers. Under four of them the token would be retained, but at an increased charge. Under the fifth alternative, use of the token would be eliminated. The several alternative fares, and the estimated operating results under each, are set forth in Table 4 which follows:

TABLE 4

LOS ANGELES TRANSIT LINES
Estimated Results of Operation
for Year ending September 30, 1953
Under Alternate Fares

: Line: : No.:	Item	: Alternate 1: : Commission : : Staff :	: Alternate 1A: : City of L.A. : : Tokens :	: Alternate 2 : : City of L.A. : : Tokens : : 3 for 40¢ :
<u>Operating Revenues</u>				
1.	Passenger Revenue	\$26,081,000	\$26,335,000	\$25,385,000
2.	Other Revenue	359,200	300,000	300,000
3.	Total	<u>\$26,440,200</u>	<u>\$26,635,000</u>	<u>\$25,685,000</u>
<u>Operating Expenses</u>				
4.	Rail (a)	\$ 8,618,100	\$ 7,361,800	\$ 7,361,800
5.	Trolley Coach (a)	1,335,500	1,120,300	1,120,300
6.	Motor Coach (a)	8,309,100	6,903,100	6,903,100
7.	Depreciation	2,198,000	2,185,000	2,185,000
8.	Amortization-Retirements (b)	(c)	140,100	140,100
9.	Insurance (c)	(c)	1,844,100	1,782,300
10.	Operating Taxes	1,736,200	1,749,700	1,729,500
11.	Wage Increases Incl. Taxes & Insurance (c)	(c)	1,485,300	1,485,300
12.	Addl. for Advt. & Serv. Impr.	-	500,000	500,000
13.	Total	<u>\$22,196,900</u>	<u>\$23,289,400</u>	<u>\$23,207,400</u>
14.	Operating Income	\$ 4,243,300	\$ 3,345,600	\$ 2,477,600
15.	Interest Income - (\$400,000 Bond)	(b)	10,000	10,000
16.	Net Before Income Taxes	<u>\$ 4,243,300</u>	<u>\$ 3,355,600</u>	<u>\$ 2,487,600</u>
17.	Income Taxes	2,443,650	1,832,939	1,299,413
18.	Net After Income Taxes	<u>\$ 1,799,650</u>	<u>\$ 1,522,661</u>	<u>\$ 1,188,187</u>
19.	Allowance for Amort. & Int.	167,600	(d)	(d)
20.	Net Income	\$ 1,632,050	\$ 1,522,661	\$ 1,188,187
21.	Rate Base	\$18,691,000	(e)	(e)
22.	Rate of Return	8.73%	(e)	(e)
23.	Operating Ratio (After Income Taxes)	93.8%	94.3%	95.4%

Explanation of Table 4

(a) Exclusive of depreciation and operating taxes. The City of Los Angeles figures are exclusive of insurance also, and do not include the recent wage increases. The excluded items are shown separately in the table.

(b) See line 19.

(c) Included in lines 4, 5, and 6.

(d) See lines 8 and 15.

(e) The City of Los Angeles did not develop a rate base. The witness said that his Alternate 1A would result in a rate of return of between 7-3/4 and 8-1/4 percent on a historical cost depreciated rate base.

TABLE 4 (Concluded)

: Line:	: Item	: Alternate 3:	: Alternate 4:	: Alternate 5:
: No.:		: Commission:	: Commission:	: Commission:
		: Staff :	: Staff :	: Staff :
		: No Tokens :	: 4 for 55% :	: 5 for 65% :
<u>Operating Revenues</u>				
1.	Passenger Revenue	\$26,528,000	\$25,657,000	\$24,978,000
2.	Other Revenue	319,000	361,300	362,500
3.	Total	\$26,847,000	\$26,018,300	\$25,340,500
<u>Operating Expenses</u>				
4.	Rail	\$ 8,592,400	\$ 8,635,500	\$ 8,658,900
5.	Trolley Coach	1,330,900	1,338,700	1,343,100
6.	Motor Coach	8,286,300	8,330,000	8,352,900
7.	Depreciation	2,198,000	2,198,000	2,198,000
8.	Operating Taxes	1,742,800	1,729,000	1,717,200
9.	Total	\$22,150,400	\$22,231,200	\$22,270,100
10.	Operating Income	\$ 4,696,600	\$ 3,787,100	\$ 3,070,400
11.	Income Taxes	2,750,500	2,134,600	1,649,030
12.	Net Operating Income	\$ 1,946,100	\$ 1,652,500	\$ 1,421,320
13.	Allowance for Amort.& Int.	167,600	167,600	167,600
14.	Net Income	\$ 1,778,500	\$ 1,484,900	\$ 1,253,720
15.	Rate Base	\$18,691,000	\$18,691,000	\$18,691,000
16.	Rate of Return	9.52%	7.94%	6.71%
17.	Operating Ratio (After Income Taxes)	93.4%	94.3%	95.1%

Alternates 1, 1A and 3 would provide relatively convenient bases of fare collection, but would produce rates of return which appear to be greater than justified under the circumstances. Moreover, alternates 1 and 1A (seven tokens for \$1.00) would preclude the purchase of tokens in any number less than seven, and thus would have the effect of withholding the token fare from many patrons. Alternates 4 and 5 would provide inconvenient bases of fare payment and collection. Alternate 4, moreover, would produce earnings which may be deemed excessive. Excessive earnings are not justified, but reasonable earnings must be provided in order that the public may be assured of adequate service. Alternate 2 appears to provide the best fare basis under all of the circumstances of record. Under this fare the tokens would be sold at a rate of 3 for 40 cents, thereby

increasing the average price of the token from the present 12½ cents to 13-1/3 cents. This constitutes an increase of less than seven percent on the present single-zone token fare, with lesser percentage increases where the token is used in combination with cash for travel beyond the first zone. No change would be made in any of the cash fares, and no additional charge would be made for transfers.⁸ The estimated operating results under this basis of fares, after the adjustments hereinbefore discussed, are as follows:

TABLE 5

LOS-ANGELES TRANSIT LINES
Estimated Results of Operation
For Year Ending September 30, 1953
Under Alternate 2

Total Operating Revenues	\$25,434,900
Total Operating Expenses	<u>22,421,500</u>
Operating Income	\$ 3,013,400
Income Taxes	<u>1,582,800</u>
Net Operating Income	\$ 1,430,600
Allowance for Amort. & Int.	<u>167,600</u>
Net Income	\$ 1,263,000
Rate Base	\$18,691,000
Rate of Return	6.76%
Operating Ratio (After Income Taxes)	95.03%

The Commission hereby finds the rate of return of approximately 6.75 percent, when considered in relation to an operating ratio of 95.03 percent, after income taxes, to be fair and reasonable for Los Angeles Transit Lines. The fares hereinafter authorized have been justified on this record.

The operating results which Pacific Electric Railway Company may achieve under the authorized rates are not estimated herein for the reason that it is clear from the evidence that these fares will not return reasonable revenues to that company. For the reasons hereinbefore stated, higher fares cannot be established for

⁸ On the information now available we question whether a charge for transfers would be equitable or reasonable for general application within the Los Angeles area, since it is not evident wherein a trip involving a transfer is necessarily of greater value than a similar trip made without transfer.

the local operations of Pacific Electric in its present joint application. By denying the application in part the Commission does not preclude that company from seeking such other or different relief as it may deem to be reasonable and justified. The operating results of Glendale City Lines, Inc. are not estimated for the reason that the revenues of that company will be affected to a minor degree only. These are not revenue proceedings insofar as Glendale City Lines, Inc. is concerned.

L. Pava Deletel

O R D E R

Public hearings having been held in the above-entitled proceedings, the evidence having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Pacific Electric Railway Company, Los Angeles Transit Lines, and Glendale City Lines, Inc., be and they are hereby authorized to increase their present token rate of fare, from two (2) for 25 cents to three (3) for 40 cents, on not less than five (5) days' notice to the Commission and to the public, as published in the following tariffs and no others:

- Pacific Electric Railway Company Local Passenger Tariff No. 1494, Cal. P.U.C. No. 3735
- Pacific Electric Railway Company Local Passenger Tariff No. 1495, Cal. P.U.C. No. 3736
- Pacific Electric Railway Company Joint Passenger Tariff No. 1496, Cal. P.U.C. No. 3737
- Pacific Electric Railway Company Joint Passenger Tariff No. 1497, Cal. P.U.C. No. 3738
- Los Angeles Transit Lines Local Passenger Tariff No. 12, Cal. P.U.C. No. 13

IT IS HEREBY FURTHER ORDERED that Los Angeles Transit Lines be and it is hereby authorized and directed to establish the following change in Highland Park Zone 2, Line W, concurrently with the changes in other fares and on not less than five (5) days' notice to the Commission and to the public:

Now reads:

"Between Marmion Way at Ave. 43 and York Blvd. at Ave. 50."

Change to read:

"Between Marmion Way at Ave. 45 and
York Blvd. at Ave. 50."

IT IS HEREBY FURTHER ORDERED that, in addition to the required filing and posting of tariffs, applicants shall give notice to the public by posting in their passenger vehicles and passenger terminals a printed explanation of the fare changes. Such notices shall be posted not less than five (5) days before the effective date of the fare changes, and shall remain posted until not less than twenty (20) days after said effective date.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects Applications Nos. 33317 and 33628 be and they are hereby denied.

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

Dated at San Francisco, California, this 14th day of October, 1952.

[Signature]
President

Justin F. Craven

Harold P. Hule

[Signature]
Commissioners

APPENDIX "A"

Appearances

- C. W. Cornell and E. D. Yeomans, for applicant Pacific Electric Railway Company.
- Max Eddy Utt, for applicant Los Angeles Transit Lines.
- George H. Hook, for applicant Glendale City Lines, Inc.
- Roger Arnebergh and T. M. Chubb, for City of Los Angeles, interested party.
- Joseph R. Koark, for City of Glendale, interested party.
- George W. Irving and Harmon R. Bennett, for City of Burbank, interested party.
- Christopher J. Griffin, for City of Huntington Park, protestant.
- Rodney S. Williams and Don L. Campbell, for Asbury Transit System, interested party.
- Carl F. Fennema, for Downtown Business Men's Association of Los Angeles, interested party.
- Charles W. Thorpe, for Citizens Transit Committee for Metropolitan Los Angeles, protestant.
- William L. Wood, for Grand Lodge of Negro Masons, protestant.
- William Hogan for self, and Lincoln Heights Coordinating Council, protestants.
- Neal J. Boyle in propria persona, protestant.
- Harold J. McCarthy and Grant E. Syphers, for staff of the Public Utilities Commission.

(End of Appendix "A")