

ORIGINAL

Decision No. 54242

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
KEY SYSTEM TRANSIT LINES, a corpora-
tion, for authority to inaugurate motor
coach service in lieu of its present
transbay rail lines between points in
the Cities of Oakland, Berkeley,
Emoryville and Piedmont, and the City
and County of San Francisco, State of
California.)

) Application No. 36656
) As Amended
)

In the Matter of the Application of
KEY SYSTEM TRANSIT LINES, a corpora-
tion, for Interim Relief and for an
Order Pursuant to Section 494 of the
Public Utilities Code Authorizing the
Establishments in Rates and Fares for
Transportation of Passengers between
Points in the Counties of Alameda and
Contra Costa, and the City and County
of San Francisco, in the State of
California.)

) Application No. 36980
) As Amended
)

(Appearances are set forth in Appendix A.)

INTERIM OPINION

Nature of Proceeding

Key System Transit Lines, by Application No. 36656, filed January 24, 1955, seeks authority to discontinue its transbay rail service on Lines "A", "B", "C", "E" and "F" and to substitute motor coach service therefor across the San Francisco-Oakland Bay Bridge. By Application No. 36980, as amended, the company requests authorization to increase transbay rail fares (if rail service is retained), transbay motor coach fares and fares for certain local service.

Public Hearings

On August 16, 1955, the Commission, after hearing, granted applicant's request for interim fare relief, applying to local token and transbay 20-ride commute fares, occasioned by a new agreement with its employees for increased wages and benefits, amounting to approximately \$133,000 in the period from June 21 through December 31, 1955. (Decision No. 51834, Application No. 36980, as amended.)

Further hearings, postponed for some time to await public disclosure of mass rapid transit plans in the San Francisco Bay area, were held on a consolidated record in Oakland or San Francisco on April 23 and 25, May 16, 17 and 18, and on June 4, 6, 7, 8, 11 and 13, 1956, before Commissioner Matthew J. Dooley and Examiner John M. Gregory. The applications were submitted for decision on July 19, 1956, following oral argument before the Commission in bank.

Applicant's Proposals

Applicant proposes to discontinue all transbay rail passenger service between the bridge terminal at First and Mission Streets, in San Francisco, and points on East Bay lines terminating at 12th and Oak Streets, Oakland ("A" Line); Underhills Station, Oakland ("B" Line); Oakland Avenue, Piedmont ("C" Line); Domingo Avenue, Berkeley ("E" Line); and The Alameda, Berkeley ("F" Line).

In lieu of rail service, applicant proposes, in accordance with route and schedule data in evidence, to operate presently-owned motor coaches, via the bridge, between the San Francisco terminal and points in the East Bay cities, generally in close proximity to its present rail routes, with additional express service on the "B" and "F" lines, in the direction of commute travel, during morning and evening peak periods. A separate motor coach route would be

provided for service to Yerba Buena and Treasure Islands, while the Oakland Army Base would be served by coaches operating on the "A" route.

Applicant, in requesting authority to substitute buses for rail service, has proposed no changes to the San Francisco terminal or to the bridge, other than to suggest minor modifications of the bridge terminal concourse and use of the present San Francisco Municipal Railway ramp, both situated on the north side of the terminal building, in order to facilitate vehicle loading. Extended use of curb loading space on First Street, between Natoma and Howard Streets, is also proposed. Vehicles, including those to be substituted for rail service, would generally follow present routes on the city streets of San Francisco. Applicant's proposal would add at least 88 buses to traffic on the lower deck of the bridge during the evening peak hour.

If bus substitution for rail service is authorized, applicant will no longer require trackage, roadway and electrical equipment now used in rail passenger operations. All Key System trackage and other equipment will be removed and disposed of.

The bus substitution plan will result in the severance or pensioning of a number of employees now engaged in rail operations, estimated by the company at 228 and by the labor organizations at 331. A substantial number of employees, now engaged in rail-related activities, would also be affected by being absorbed in other phases of the company's operations, according to labor representatives. The labor organizations involved are Division 192, Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America, and Local 1245, International Brotherhood of Electrical Workers.

Applicant's Position

Applicant asserts that continuation of the more costly rail passenger service is unwarranted in the face of declining transbay rail and motor coach traffic; that maintenance of lowest possible fares will be assured through the more economical motorized operation; that funds for rehabilitation of rail structures and repaving of streets in the East Bay, estimated by applicant to cost \$3,000,000, are not available and an expenditure of that amount would require increased fares; that motorization would result in faster and more frequent service, especially for commuters, and would permit more satisfactory use of the bridge terminal; and that it would allow completion of street improvement plans in the East Bay cities.

With respect to requested fare increases, applicant, by a second amendment to its Application No. 36980, filed March 8, 1956, seeks an order making permanent the interim fare increases authorized by Decision No. 51834, and permitting establishment of new fares and increases in existing fares as follows:

Local Fares

<u>Single Zone</u>	<u>Present Fares, Including Increase as per Dec. No. 51834</u>	<u>Proposed Fares</u>
Cash	20¢	20¢
Token	19¢ (5/95¢)	-
School	7¢	10¢
<u>Two Zone</u>		
Cash	30¢	30¢
Token and 10¢	29¢	-
School	7¢	10¢
<u>Three Zone</u>		
Cash	35¢	35¢
School	7¢	10¢

Transbay Fares (As of March 8, 1956)

(Including Bridge Toll and Federal Transportation Tax (a))

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>(Including</u>		<u>Via Transbay</u>	<u>Via Transbay</u>
	<u>Increases as per</u>		<u>Trains(b)</u>	<u>Motor Coach</u>
	<u>Dec. No. 51834)</u>			
<u>Between San Francisco</u>				
<u>and</u>				
<u>1st Zone (Central Zone)</u>				
Adult Cash	\$.50		\$.60	\$.55
20-Ride Commute	8.60		10.00	9.00
10-Ride Commute	-		5.50	5.00
Child Cash	.20		.30	.25
<u>2nd Zone</u>				
Adult Cash	.60		-	.65
20-Ride Commute	10.10		-	10.50
10-Ride Commute	-		-	6.00
Child Cash	.25		-	.30
<u>3rd Zone</u>				
Adult Cash	.70		-	.75
20-Ride Commute	11.60		-	12.00
10-Ride Commute	-		-	7.00
Child Cash	.25		-	.30
<u>Treasure Island</u>				
<u>(Yerba Buena)-</u>				
T.I. and 1st Zone -				
Civilian	.25		.35	.30 ^(c)
T.I. and 1st Zone -				
Military Personnel	.20		.30	.25 ^(c)
T.I. and San Francisco -				
Civilian	.20		.30	.25 ^(c)
T.I. and San Francisco -				
Military Personnel	.15		.25	.20 ^(c)

(a) As a result of recent changes in the Federal Transportation Tax, applicant was authorized by the Commission to reduce existing first and second zone cash fares to 46¢ and 55¢, respectively, effective September 1, 1956. Third zone and commute fares are not affected. The present tax applies to cash fares over 60¢.

(b) If rail service continues.

(c) Motor coach service not now being operated to Yerba Buena.

Applicant estimated results of operations for its entire system for the test year ending May 31, 1957, as follows (from Exhibit

5):	Present Fares (Present Operations)	Present Fares (Proposed Operations)	Proposed Fares (Present Operations)	Proposed Fares (Proposed Operations)
Operating Revenues	\$11,385,100	\$11,335,200	\$12,082,400	\$11,823,800
Operating Expenses	11,732,000	10,889,300	11,785,200	10,927,000
Operating Income Before Income Taxes	(346,900)	445,900	297,200	896,800
Federal and State Income Taxes	-	230,968	150,789	474,094
Net Operating Income - System	(346,900)	214,932	146,411	422,706
Rate Base	5,144,200	4,035,300	5,144,200	4,035,300
% Rate of Return	-	5.33%	2.85%	10.48%
Operating Ratio After Income Taxes	103.05%	98.10%	98.79%	96.42%
Excluding amortization of track removal and re-paving costs for track used by Oakland Terminal Railway				
	\$ -	\$ 78,500	\$ -	\$ 78,500
Operating Income Before Income Taxes	(346,900)	524,400	297,200	975,300
Federal and State Income Taxes	-	273,295	150,789	516,421
Net Operating Income - System	(346,900)	251,105	146,411	458,879
Rate Base	5,144,200	4,035,300	5,144,200	4,035,300
% Rate of Return	-	6.22%	2.85%	11.37%
Operating Ratio After Income Taxes	103.05%	97.78%	98.79%	96.12%

(Red Figure)

Position of Cities and Other Interested Parties in Previous and Present Bus Substitution Proceedings

On November 10, 1953, the Commission denied an application by Key System to convert its "A" and "B" rail lines to motor coaches (53 Cal. P.U.C. 8). The Commission, after considering the proposals there advanced by the company and the position of the interested municipalities and others with respect thereto, concluded:

"The record, however, makes it abundantly clear that the company has not presented, at this time, a sufficiently comprehensive plan for conversion of rail operations to motor coach service on its "A" and "B" lines. Notably absent from the company's showing is any provision for adequate use of the existing San Francisco Terminal for bus operations, either for the "A" and "B" lines alone

or for all bus operations in the event of abandonment of the other three rail lines. Moreover, the objections raised by the City of San Francisco and others, concerning peak period congestion in the San Francisco Terminal area, find strong support in the evidence." (53 Cal. P.U.C. 8, 12-13.)

The present record, were it limited solely to the consideration of Key's proposal to convert all rail service to motor coaches, would only lend emphasis to the underlying reasons for denial of the company's request in 1953.

The Commission, in the 1953 decision, also pointed out that the record there showed that bus operations would be cheaper, more frequent and generally faster than rail service on the "A" and "B" lines. No fare increases were involved in that proceeding.

Objections to Key's present service proposals are of the same general character as those voiced in the 1953 case. In essence, they relate to the lack of a plan by the company to relieve congestion in the San Francisco Terminal area and on the city's streets during peak movements. The City of Berkeley and certain commuter organizations and individuals urged retention of rail service. The Department of Public Works and the Toll Bridge Authority, and others, interposed objections to any plan that might result in removal of the present bridge or terminal trackage in advance of final determination of mass rapid transit plans that conceivably might utilize those facilities or the areas they occupy. Those agencies asserted that no funds under their control were available for financing bridge or terminal modifications. The City and County of San Francisco objected not only to further congestion in the terminal area and on city streets, but also to diversion of any bridge revenues, now committed by statute to construction and maintenance of the Southern Crossing, for the purpose of financing bridge or terminal modifications necessitated by Key's conversion to all bus operations.

The City of Oakland strenuously urged that the rails be removed from the streets of that city in order that its street improvement plans might go forward.

Representatives of the two labor organizations involved urged that the Commission should provide adequate protection for employees who might be adversely affected by any order permitting abandonment of rail service. Key System's present contract with the Carmen's Union is in effect until May 31, 1957, and that with the Electrical Workers until June 30, 1957.

Key System contends that the agreements, in their present form, make adequate provision for employees who might be adversely affected by discontinuance of rail service. The labor representatives take an opposite view. We leave for determination in our final decision the issues involved in this controversial subject.

No substantial objections were presented by any of the interested participants to whatever increases in fares the Commission might find to be justified; however, considerable protest was voiced by the City of Berkeley and others to the establishment of a fare differential in favor of motor coach service in the event of retention of rail operations.

Position of the Commission's Staff

The Commission's staff, in the most comprehensive study of Key System's operations it had conducted since World War II, undertook to analyze engineering, economic and service features of Key's proposal. The staff's study (Exhibits 11 and 12), in addition to analyzing the company's present and proposed service, described as "Plan I" and "Plan II" in the exhibits, presents four alternate plans of operation (denominated Plans III to VI in the exhibits) which are analyzed and compared with Key's existing rail-bus and proposed all-bus operations.

Certain basic facts, developed in the study and also in other portions of the record, underlie the staff's conclusions. These are: (1) the tracks on which Key operates trains in the East Bay

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area are approaching a point where they may be unsafe for operation unless they are rehabilitated, at an estimated cost of \$4,511,500, or unless the present level of annual maintenance expenditure is increased by \$88,000, which, with some rehabilitation in about two years time, would be necessary to keep the tracks in safe operating condition in their present rough standard; (2) the "minimum plan" advanced by the consulting engineers for the Bay Area Rapid Transit Commission envisions the use of the space, but not necessarily the tracks, presently used by Key's trains on the Bay Bridge and Bridge Terminal, by trains of the proposed rapid transit systems; (3) in spite of the continuing decline in Key System patronage, Key's buses and trains still carry about 48 percent of the persons travelling on the Bay Bridge in the peak direction during the maximum evening peak hour, while private autos carry 52 percent. Also, the study shows, Key's transbay buses carry 49 percent and its trains 51 percent of its patrons in the evening peak hour, with the "F" rail line accounting for one fifth of the total rail and bus passengers carried during that period. During the entire day, on weekdays, Key's passengers are divided 41 percent on buses and 59 percent on trains, distributed among the rail lines in substantially the same proportions as developed for the evening peak hour; however, the "A" line percentage increases from 5 percent to 13 percent for the all-day calculation and thus shares with the "F" rail line the largest percentage of patronage among the five rail services on a round-the-clock weekday basis.

Since the various alternate plans discussed in the staff's study were advanced for the purpose of offering to the Commission, the interested parties and the public possible solutions to the problem raised by Key's "all-bus and nothing else" proposal, it is appropriate, in our opinion, that they be briefly discussed here, and that their feasibility be weighed in the light of what the record shows may be anticipated from continuation of present service or adoption of the

plan advanced by Key System, the economic results of which, as shown by Key's exhibits, have been summarized earlier.

The four alternate plans advanced by the Commission's staff comprise two main categories. Plans III and IV contemplate complete conversion to bus operation, certain modifications to bridge and terminal structures and removal of passenger rail facilities in the East Bay. Plans V and VI provide for partial or full rail shuttle for present transbay rail service across the bridge, with buses operating in the East Bay to and from a shuttle terminal to be located near 40th Street and San Pablo Avenue.

Plan III, in essence, provides for substitution of motor coaches for the five transbay rail lines, with use of the existing Bridge Terminal rail area for loading and unloading all bus passengers by construction, and use by Key System buses, of a ramp leading to and from the paved Terminal upper deck. Buses would not use the city streets in leaving San Francisco at any time, including the evening peak hour, and would operate in the truck lanes on the lower deck of the bridge. This plan contemplates an investment in fixed facilities estimated by the staff at about \$950,000 for terminal modifications and construction of a ramp from Harrison Street.

Plan IV provides for bus substitution for existing rail passenger lines and devotion of the present transbay bridge trackage area and the San Francisco Terminal to the exclusive use of passenger buses using the bridge. This plan also contemplates paving the present rail area on the bridge, on the railway viaduct leading to the San Francisco Terminal and within the terminal track area, and using these areas exclusively for bus operation. It also includes paving a portion of Key System's private right of way from the east end of the bridge to an overcrossing to be constructed just east of the toll plaza.

Adoption of Plan IV was urged by the Commission's staff engineers as the most feasible solution to the problem of providing

adequate transit facilities for Key System's patrons and accomplishing the track removal program desired by the City of Oakland, while at the same time making fullest use of bridge and terminal facilities, despite contentions by the company, by the State Department of Public Works and others that serious legal and financial obstacles stood in the way of carrying out such a plan. The cost of conversion of facilities under Plan IV, as indicated by the staff's computations, would be in the neighborhood of \$4,850,000.

Plan V, one of the two rail shuttle plans considered by the staff, contemplates shuttle rail service between the San Francisco Terminal and a terminal to be constructed in the vicinity of 40th Street and San Pablo Avenue, in the City of Emeryville, at an estimated cost of \$150,000 for the East Bay transfer terminal and an additional estimated cost of \$2,107,875 for ultimate rehabilitation of rails used by the "E" and "F" lines, which would continue to operate as at present. Radial bus service would be provided between the East Bay shuttle terminal and the East Bay territory now served by the "A", "B" and "C" rail lines.

Plan VI contemplates a full rail shuttle service between the San Francisco Terminal and a transfer terminal in the vicinity of 40th Street and San Pablo Avenue, Emeryville, with radial bus service between the shuttle terminal and the East Bay territory now served by the "A", "B", "C", "E" and "F" rail lines. The investment required for this plan would comprise approximately \$150,000 for construction of a shuttle terminal. In addition, the expense for removal of rails and repaving of streets beyond that terminal would be entailed. Such expense must, of course, be included in the calculations for any plan that contemplates substitution of bus for rail service.

Objectionable Features of Plans V and VI

The rail shuttle services considered in Plans V and VI, when examined closely and compared with the bus substitution programs, Plans III and IV, do not appear to offer a feasible solution to the many-sided problem presented by this proceeding. Although Key's East Bay tracks would be removed on the "A", "B" and "C" rail lines under Plan V and on all East Bay rail lines under Plan VI, thus affording the City of Oakland its long-sought opportunity to complete its street improvement plans, the institution of partial or full transbay rail shuttle service would leave other serious problems unsolved.

Aside from the relatively high cost of maintaining rail shuttle service across the bridge, as shown by the staff's exhibit, that type operation, the record shows, would be inconvenient for passengers because of the necessity of transferring, with attendant delays, to and from buses at the East Bay terminal on the "A", "B" and "C" lines under Plan V and on all transbay shuttle lines under Plan VI. Service would be up to approximately 6 minutes slower on the rail routes, except on the "B" express which would be from 3 to 7 minutes faster, according to the staff's estimates. San Francisco and Oakland, the second and third largest cities in California, only 10 miles apart would have no through transit service between their downtown areas on the shuttle operation. It is probable that the inconvenience of an additional transfer would cause a further shift of Key's patrons to private automobiles.

With respect to traffic on San Francisco city streets and on the Bay Bridge, inauguration of shuttle service would result in no change from present unsatisfactory conditions. Nor would such

a service result in more effective use of the San Francisco Bridge Terminal itself, since trains would still use the upper deck and street loading and unloading of passengers on existing transbay bus lines would continue as at present.

The record includes a study by the Division of Highways ("Report to California Toll Bridge Authority on the Bridge Railway Situation on the San Francisco-Oakland Bay Bridge", dated October 1, 1954 - Exhibit 22). With respect to possible rail shuttle service over the bridge by the Toll Bridge Authority or a contracting operator, in the event Key System's transbay rail service ceases, the report concludes as follows (Sec. II. pp. 21, 22):

"It seems evident that shuttle train operation which only connects with present rail lines and possibly some bus routes, should not be undertaken except possibly as an emergency procedure. It must be a temporary expedient pending the adoption of a general Bay Area mass transit system. There is almost a certainty that such a service cannot be operated profitably and the loss in operation and an initial investment of over a million dollars must be provided for from public funds.

"From the best available information, it appears that such a minimum-cost 'interim' rail shuttle service would accomplish none of the objectives set forth at the beginning of this section. Instead of decreasing vehicular congestion on the bridge, the increased diversion to private vehicles caused by the shuttle would tend to increase it. Instead of preserving transit patronage, a shuttle service would impair patronage and hasten the present downward trend since the service provided would be inferior to that which now exists or to an all-bus operation."

Under Plans III and IV, the details of which will be discussed later, the objectionable features of shuttle service would not be present.

Bus Substitution as Related to Proposed
Mass Rapid Transit Plans

Retention of existing rail-bus operations poses serious problems for the company, its patrons and also for the Cities of San Francisco and Oakland. The expense of maintaining rail service will necessitate fare increases. The cost of properly rehabilitating the tracks in the East Bay Area would be well-nigh prohibitive. The City of Oakland would continue to suffer from its inability to complete its street-improvement program, and San Francisco would continue to suffer from the congestion in the terminal area and on its streets occasioned by the presence of Key System buses at the rush hours. These difficulties militate against retention of the present service despite the attractiveness, in theory, of maintaining the status quo pending the crystalization of plans for mass rapid transit in the Bay Area.

We are informally aware that, on November 20, 1956, the Senate Interim Committee on Rapid Transit in the Bay Area indicated its intention to request that this Commission "take no action leading to the removal of rail transit, tracks or facilities from the San Francisco-Oakland Bay Bridge until the 1957 regular session of the California Legislature has an opportunity to review and consider the proposed legislation creating a Rapid Transit District, or any other proposals that may be submitted." We are familiar with, and this record discloses, the steps already taken looking toward the formulation and implementation of plans for rapid transit; and we shall not, in our orders herein, take any action which will prejudice the ultimate development of a rapid transit system. It would, however, in view of the financial and other problems involved, be totally unrealistic for us to require that the present service be maintained unchanged until rapid transit can take its place.

The plan we have concluded, on this record, to be justified by public convenience and necessity, and which is discussed in some detail below, while authorizing substitution of buses for rail transit on Key System's transbay operations, does not necessitate removal of tracks or rail facilities on the Bay Bridge. It does contemplate, however, the paving of the railway viaduct and terminal and conversion of the upper deck of the terminal for bus operations. Such action by this Commission will not result in irrevocable modifications to the bridge or terminal structures and should in no way operate to deter the legislature from adopting whatever transit proposals it may deem appropriate.

Comparison of Service and Economic Features of Plans III and IV

The record strongly indicates, both as regards the interest of the public in adequate service and the financial needs of Key System for provision of such service, that Plan IV, described generally above, would afford the most feasible solution to the problem. That plan, however, which is estimated to require an additional investment of approximately \$4,850,000, and which would require possibly two years for completion, does not now appear to be susceptible of achievement in view of the practical obstacles that the record indicates cannot presently be overcome. Those obstacles include lack of funds, unless the legislature, in its wisdom should provide them, and the assertion, by Key System, of its lack of any proprietary interest in the bridge and terminal, and of the lack of any present contractual obligation with governmental authorities for continuance of transbay service by that company.

Therefore, while from a service standpoint as well as from considerations of savings in expenses over present operations, Plan IV would be the most feasible one to provide an effective public transportation system across the Bay pending completion of a mass rapid transit system, we must, for the reasons stated, discard it as a present solution to the immediate problem.

Plan III, on the other hand, while not as nearly ideal as Plan IV, does offer many of the same advantages without presenting the same presently insuperable problems. Like Plan IV, it would provide more frequent service than is now feasible with the trains. It would provide such service economically, without any immediate necessity for fare increases. All passenger loading and unloading in San Francisco, including that on present transbay bus routes now loading on the streets, would be off-street and under cover. Key System buses would be taken off the San Francisco streets, except that, inbound, they would be on Harrison Street, west of Essex Street, for one-half block approaching the proposed new ramp. The trackage used for passenger service in the East Bay Area would be removed, thus eliminating the expense for rehabilitation and the annual expense for maintenance, and permitting the City of Oakland to go forward with its street improvement plans.

Plan III admittedly has shortcomings as compared with Plan IV, which would take all the Key System buses off the truck lanes on the bridge and off the San Francisco streets, and result

in faster service. And Plan III presents the serious disadvantage, temporarily, of taking the truck lanes on the bridge out of use. This, of course, is something beyond the power of the Commission to correct. It could be corrected by the Legislature, which could provide the funds and authority for paving these lanes. It is urged that, if this be done, such lanes be reserved, for the time being, for bus traffic. This would effectuate Plan IV. This would preserve those lanes for ultimate use by the mass rapid transit system; it being clear that, if they were thrown open to general traffic, it might be difficult to recapture them for exclusive mass transit use at a later time. It may also be noted, in passing, that there is much to be said for some expenditures to be made for the exclusive benefit of the users of mass transit. The freeway system is designed to make it easier for private automobiles to get into the urban centers. The increasing congestion of the streets in these centers is a potent argument for legislative action to encourage the use of mass transit in lieu of the private vehicle.

Nothing in Plan III is in conflict with the ultimate achievement of Plan IV. Should the plans for mass rapid transit fail to materialize within a reasonable time, the construction required to put Plan III into effect can be used in establishing Plan IV. Plan III, in other words, while it offers the most feasible solution to present problems, can be viewed either as a final solution or as the first step toward the better solution offered by Plan IV. Which it is to be can be decided later, when the future of Key System can be predicted in the light of mass rapid transit developments. It may be noted, in passing,

that the paving of the rail area of the bridge, under Plan IV, for the exclusive use of transit vehicles, does not preclude its ultimate dedication to mass rapid transit. If the "minimum" plan is adopted, new rails could be laid; and it is highly doubtful, in any event, that the present rails would be satisfactory. If the "optimum" plan set out in the Bay Area Rapid Transit Commission's engineering report were adopted, calling for a tube under the bay, the present bridge rail area, paved for buses under Plan IV, could be turned over to all vehicular traffic.

The financial results of operation, systemwide, at present fares, as estimated by the staff under Plans III and IV for the year ending May 31, 1957, are tabulated below. The expense figures shown include alternate allocations of cost to Key System for modification of rail trackage and San Francisco Bridge Terminal facilities of the California Toll Bridge Authority under bus conversion Plans III and IV, on the basis that Key System would be obligated to pay either 100 percent, 50 percent or none of that cost (from Exhibit 12). Results at proposed fares are not shown, since, for reasons mentioned later, they would indicate unreasonably high earnings.

Plan III

<u>Item</u>	<u>Present Fares</u>		
	<u>100%</u>	<u>50%</u>	<u>0%</u>
Total Revenue	\$11,395,100	\$11,395,100	\$11,395,100
Total Expenses	10,522,800	10,467,100	10,411,100
Operating Income	872,300	928,000	983,700
Income Tax	399,330	429,350	459,380
Net Income	472,970	498,650	524,320
Rate Base	6,453,200	6,453,200	6,453,200
Rate of Return	7.33%	7.73%	8.12%
Operating Ratio (After Income Tax)	95.6%	95.6%	95.4%

Plan IV

Item	Present Fares		
	100%	50%	0%
Total Revenue	\$11,514,500	\$11,514,500	\$11,514,500
Total Expenses	10,850,300	10,566,000	10,281,700
Operating Income	664,200	948,500	1,232,800
Income Tax	291,060	444,360	597,650
Net Income	373,140	504,140	635,150
Rate Base	6,223,000	6,223,000	6,223,000
Rate of Return	6.00%	8.10%	10.21%
Operating Ratio (After Income Tax)	96.8%	95.6%	94.5%

For comparison, the staff's computation of the estimated results for the 12-month period ending May 31, 1957, on the basis of Plan I, which relates to existing operations, and of Plan II, which is Key System's proposal, as shown under both present and proposed fares, follows (from Exhibit 12):

Item	Plan I		Plan II	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Total Revenue	\$11,434,050	\$12,148,010	\$11,395,100	\$11,907,360
Total Expenses	11,202,950	11,205,350	10,432,000	10,438,400
Operating Income	231,100	942,660	963,100	1,468,960
Income Tax	97,200	480,900	448,270	721,000
Net Income	133,900	461,760	514,830	747,960
Rate Base	4,966,300	4,966,300	6,453,200	6,453,200
Rate of Return	2.70%	9.30%	7.98%	11.59%
Operating Ratio (After Income Tax)	98.8%	96.2%	95.5%	93.7%

Analysis of Certain Features of Staff and Company Exhibits

The staff's estimates of operating and maintenance expenses, assuming continuation of present service (Plan I of Exhibits 11 and 12), are generally at the level of wages that will actually be in effect until May 31, 1957. The same is true with respect to the level of other unit costs. Added track maintenance expense, in the sum of \$88,000, has been included for the future year to provide for maintenance of tracks in their present rough standard. Other expenses, however, varying in type and volume, enter into the staff's consideration of the remaining plans, including Plan II, which is based on Key System's proposal. They have been predicated on current experience and conditions.

The expense of the company's public liability and property damage insurance was estimated by the staff on the basis of the cost

to Key System of injuries and damages, rather than on the basis of the premiums paid. Key System took exception to the staff's method of treating this item, which resulted in a figure substantially lower than that shown by the company's exhibit.

Since July, 1952, Key System has carried its public liability and property damage insurance with Transit Casualty Insurance Company, a nonaffiliated company regulated by the California Insurance Commissioner, at a premium rate of 6½ percent of passenger revenue. The rate is subject to adjustment on the basis of Key's liability experience, but it has not been changed since its inception. We see no reason to burden Key System's patrons with more than the actual cost of injuries and damages, plus reasonable administrative overhead costs, arising from claims in this category. The staff's treatment of the item will be adopted as reasonable for the purposes of this proceeding.

The differences between the staff's systemwide rate base figures for Plans II and III and the systemwide rate base developed by Key System in its exhibit are chiefly attributable to the fact that the staff included \$2,532,000 for the purchase of 110 new 48-passenger motor coaches, the sum to be amortized over a period of 10 years, whereas Key System, not proposing to use new equipment for its substituted service, made no provision for investment in additional motor coaches. Hence, any comparison of estimated results of operation under Key's proposal and the staff's Plan II (which, in essence, is the equivalent of Key's proposal with the addition of calculations representing the investment in 110 new motor coaches), should be approached in the light of the substantial effect such an investment must necessarily exert on calculated net earnings after income taxes, rates of return and operating ratios. The same would hold for comparison with Plans III and IV.

Another item of the expense estimates warrants further examination. Key System calculated the results of operation with the sum of \$78,500, for amortization of the expense of track removal and repaving for that portion of its trackage now jointly used with The Oakland Terminal Railway, both excluded from and included in its operating expenses. The staff did not include any sum for this item in its exhibit, on the theory, expressed by the engineer who testified on the subject, that, in accordance with a contract between the two carriers, such expense would fall upon whichever one survived as a result of abandonment of rail operations by either. Also, no determination was made by the staff with respect to any liability that might be incurred by the company under its franchise granted by the City of Oakland (Ordinance No. 3221, C.M.S., adopted November 17, 1949 - Exhibit 46 herein), in the event of abandonment of rail service on the streets of that city.

Whatever legal obligations Key System may have, if rail operations cease, under its contract with The Oakland Terminal Railway or its franchise granted by the City of Oakland, are questions that this Commission will not undertake to determine in this proceeding, since they involve issues foreign to our regulatory jurisdiction. If, as the result of a final determination of those questions by the proper tribunal, it should become necessary to adjust or allocate any sums that may be involved in these categories, the Commission, upon application, will take appropriate action.

Another expense item which we believe merits special attention, since it underlies Key System's chief reason for requesting authority to convert its transbay rail service to motor coaches, is

found in Key's comparison of estimated expenses for that phase of its service by rail and bus, as presently operated, and by bus alone, as proposed in its application, at present and proposed fares, for the test year ending May 31, 1957. This is strikingly portrayed in the following excerpts from data appearing on page 4 of Exhibit 5. Only the expense items, estimated rates of return and operating ratios are reproduced here.

Transbay Service - Year Ending May 31, 1957

<u>Item</u>	<u>Present Operations Present Fares</u>	<u>Proposed Operations Present Fares</u>	<u>Present Operations Proposed Fares</u>	<u>Proposed Operations Proposed Fares</u>
Operating Expenses:				
Rail	\$2,962,200	\$ -	\$2,982,000	\$ -
Motor Coach	<u>1,719,800</u>	<u>3,822,700</u>	<u>1,735,200</u>	<u>3,842,800</u>
Total	\$4,682,000	\$3,822,700	\$4,717,200	\$3,842,800
Rate of Return	-	16.31%	-	28.64%
Operating Ratio	111.65%	96.26%	101.88%	93.84%

Exclusion of the \$78,500 item of expense connected with The Oakland Terminal Railway track removal from the above expense estimates would, of course, reduce expenses and result in some improvement of net income after income taxes, rates of return and operating ratios as shown by the exhibit. Thus it will be seen that, even including the joint track amortization expense, conversion to motor coaches, by Key System's own showing and disregarding any adjustments in expenses contained in the staff's exhibits relating to Plans I and II, would result in an estimated saving of expenses in Key's transbay service alone amounting, in the test year, to \$859,300 at present fares and \$874,400 at proposed fares.

The staff estimated the saving in expense, by conversion of transbay train service to motor coaches, to be \$770,950 at present fares and \$768,650 at proposed fares. Operating ratios for the transbay

service, under Plan II, were calculated at 91.7 percent at present fares and 89.4 percent at proposed fares, and rates of return at 9.67 percent under present fares and 13.06 percent at proposed fares, for the test year.

It thus appears that, on the basis of both Key System's and the staff's estimates, conversion of transbay rail service to motor coach operation would result in savings in operating expense conservatively estimated to be in excess of \$750,000 annually.

Track Removal and Repaving in East Bay

For many years, the Key System and the East Bay cities in which Key's tracks have been laid, have been concerned with the deterioration of the trackage and adjacent street areas. The City of Oakland, especially, is desirous of expediting its one-way street program which is presently inhibited by the presence of Key's trackage.

If conversion to motor coach operation is permitted, Key System proposes to remove all its remaining trackage, except that jointly used by The Oakland Terminal Railway, and all facilities involved in the operation of its trains.

The Commission, by previous decisions,¹ has authorized the removal from service of all local line trackage, a portion of the "A" transbay rail line beyond 12th and Oak Streets, in Oakland, and also certain rail equipment formerly operated on the "A" line, and

¹ Decision No. 42200, Application No. 29434 (1948) - local rail facilities.
Decision No. 45205, Application No. 31179 (1950) - portion of "A" rail line.
Decision No. 48687, Case No. 5259 (1953) - 31 rail units, "A" rail line.

has provided for amortization of the unrecovered investment in such facilities and the cost of repaving.

The staff, in its cost estimates under Plans II, III and IV, has included annual expense of amortization for prior abandonments in the sum of \$396,700. The total cost of rail removal and repaving in connection with the proposed rail abandonments, together with the annual amortization cost thereof over 10 years, was estimated by the staff at \$709,150. After deducting a net salvage amount of \$54,606 from the depreciable rail investment to be retired, the net cost of rail removal and repaving was estimated to be \$654,544 and the annual amortization, over a 10-year period, \$65,454, which sum was added to the annual amortization expense for prior abandonments. These are extraordinary expenses and, when amortized, will be nonrecurring.

Key System estimated the net cost of track and overhead removal and repaving at \$776,674, including all track and overhead, and at \$541,404, if track used by The Oakland Terminal Railway were excluded from the computations. Adding \$1,000 as the cost of maintenance of out-of-service tracks, Key estimated the annual cost of amortization of this expense, over 3 years, at \$259,891 for removal of all track and overhead and at \$181,468 if tracks of The Oakland Terminal Railway were excluded.

Although there is substantial variation in the estimates of the net cost of the track removal program, the different periods of amortization used by Key and by the staff result in an extreme variation in the annual expense for this item.

We are of the opinion that the 10-year period used by the staff for amortization of this extraordinary expense should be adopted as being consistent with previously allowed amortization periods in connection with prior abandonments and retirements of similar facilities formerly used in local service. We will give further consideration to this matter in the future if conditions develop so that it appears advisable to modify the 10-year amortization period.

The amounts for amortization as developed by the staff are, of course, based on estimates. The company will be expected to maintain accurate records of the cost of removal and repaving work and the amount received for salvage. The charges for amortization should be adjusted, if necessary, to reflect actual net costs.

Conclusions

The evidence of record in this proceeding makes it abundantly clear that the time has come to deal with the growing problem of providing an efficient transbay and local transportation service by Key System which will satisfy the needs of the fast-growing Bay area, and to deal with the growing discontent of the City of Oakland concerning its street improvement program and also that of the City and County of San Francisco with respect to the increasing vehicular congestion in the Bridge Terminal area and on the city's streets. But it is equally clear from the evidence that Key System's proposal to do no more than to substitute motor coaches for transbay trains does not solve the problem.

It was primarily with the future of the area in mind that after reviewing applicant's proposal the Commission instructed its staff to explore possible alternative solutions to the problem. With this additional information before it, the Commission is in a position to prescribe what it conceives to be a feasible transportation program for the people of the East Bay area and San Francisco.

As hereinbefore indicated, Plan IV, involving full motorization and maximum use of the lower deck of the Bay Bridge, would afford the best over-all method which has come to our attention in this proceeding for providing convenient, efficient and rapid transbay

transit service to the public pending completion of the vast transit projects which are still in preliminary stages of planning. Unfortunately, however, certain obstacles, discussed above, appear to preclude the inauguration of Plan IV at the present time.

The Department of Public Works and the Toll Bridge Authority have insisted that nothing be done to disturb the tracks or track space on the bridge in advance of legislation or other action providing for ultimate use or non-use of that space for mass rapid transit. In any event, these authorities see no funds in sight over which they may have control which might be used for bridge or terminal modifications of the magnitude indicated by Plan IV.² It is clear from the foregoing that this plan is not available as an immediate solution of the transbay transit problems presented in these proceedings, unless the legislature were to make available the funds necessary for its completion.

On this record, we find that Plan III, with certain modifications indicated below, is the most reasonable and practicable plan, in the public interest, that offers prospects of an immediate workable transbay transit service by Key System which will also permit of retirement of the present costly rail service, removal of tracks and repaving of streets in the East Bay, reduction of vehicular congestion in San Francisco and provide a more frequent and generally speedier service while still enabling the company to develop satisfactory earnings from the present fares. It appears, however, that some modification of Plan III is necessary under present conditions.

In respect to Plan III, the record in these proceedings is persuasive that conversion of transbay rail service to motor

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It seems appropriate to point out here, in the interest of clarity, that the cost of paving the bridge areas now occupied by rails amounts to about 3 million dollars. The cost of 3 million dollars was calculated by engineers of the State Department of Public Works and introduced in evidence in these proceedings. This amount is included in the estimate of \$4,850,000 previously mentioned as the cost of Plan IV.

coaches, unaccompanied by the addition of at least a sufficient number of new motor coaches to operate basic schedules, would have an adverse effect on Key System's patrons. There was considerable testimony by public witnesses concerning the comparative comfort of rail cars and buses. In our opinion, the addition of new bus equipment of modern design would contribute favorably to public acceptance of the converted service and might well tend to help arrest the present downward trend of Key System's patronage. It appears from the record, however, that 21 new 48-passenger diesel buses (19 scheduled and 2 spares), instead of the 110 recommended by the staff in Plan III, operated in conjunction with 102 presently-owned gasoline buses, chiefly 44-passenger (92 scheduled and 10 spares), would provide satisfactory service during the early stages of the changed operations.

The estimated system operating results anticipated under Plan III if the present fares were continued in the 12-month test period ending May 31, 1957, are summarized below. The results are based upon the calculations in Table 21, column 4, page 50 of Exhibit No. 12, as modified herein, to provide, in lieu of similar entries in the original exhibit, for the 21 new buses and 102 presently-owned buses referred to above, for amortization ^{of the} cost of rail removal in the East Bay Area and for the \$950,000 investment required for changes within the bridge terminal and for a new vehicular ramp between the terminal and the lower deck of the bridge. The summary of the operating results follows:

<u>Line No.</u>	<u>Item</u> (1)	<u>Total</u> (4)
1	Total Revenue	\$11,395,100
8	Total Expenses	10,459,660
9	Operating Income	935,440
10	Income Tax	446,770
11	Net Income	488,670
12	Rate Base	5,363,800
13	Rate of Return	9.11%
14	Operating Ratio (After Income Tax)	95.7%

In making provision in the foregoing operating results for the cost of changes in the bridge terminal, it was considered that Key System would provide the full amount of \$950,000. Adjustments were made to rate base and expenses to reflect this investment and to provide for amortization over a 6-year period. We are of the opinion that vigorous cooperative efforts and sustained determination by Key System, the bridge authorities and the city officials and others interested in this important transit problem *Tom* ~~would~~ ^{will} develop within a reasonable time the means of effecting the changes in structures needed to place Plan III in operation.

The estimated financial results of the system operations set forth on page 27 hereof show that earnings under the present fares, with modified Plan III in operation, would be adequate. In the circumstances, no increase in the present fares will be authorized. For the purposes of these proceedings, we find the aforesaid operating results to be reasonable.

Since it appears from the record, however, that some uncertainty exists with respect to the ability of Key System to make satisfactory arrangements for terminal modifications and for construction of a vehicular ramp, we are of the opinion that an opportunity should be afforded to explore fully the problems *Tom* involved and to report the results to the Commission at an early date. The interim order which follows will direct the company to initiate such action and to report the results thereof to the Commission at a further public hearing, the time and place of which are provided in said order.

INTERIM ORDER

Public hearing having been held herein, evidence and argument having been received and considered, the Commission being of the opinion that the present state of the record does not justify the issuance of a final decision herein at the present time,

IT IS HEREBY ORDERED that Key System Transit Lines forthwith initiate negotiations with the California Toll Bridge Authority and the State Department of Public Works, and with proper officials of any other public agency involved, for the purpose of concluding appropriate arrangements for the implementation of Plan III, as modified in the preceding opinion, respecting the financing and construction of modifications to the Bay Bridge Terminal and approaches thereto as may be required for effectuation of said revised Plan III.

IT IS HEREBY FURTHER ORDERED that Key System Transit Lines report the results of such negotiations to the Commission at a public hearing to be held in these proceedings at the Commission's courtroom, State Building, San Francisco, on Thursday, the 31st day of January, 1957, before the Commission in bank, commencing at 10:00 a.m. The Secretary is directed to cause service of a copy of this decision and order to be made upon all parties of record herein and to the Secretary of the Senate and the Chief Clerk of the Assembly of the State of California at least ten days prior to the date of said hearing.

IT IS HEREBY FURTHER ORDERED that this proceeding remain open for such further order or orders as the Commission may deem appropriate in the exercise of its jurisdiction.

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

Dated at San Francisco, California, this 11th day of December, 1956.

John E. Mitchell
President
Raymond J. [unclear]
William [unclear]
[unclear]
E. L. Fox
Commissioners

APPENDIX "A"

Appearances

Donahue, Richards, Rowell & Gallagher, by George E. Thomas and Joseph A. Woods, Jr., for Key System Transit Lines.
John W. Collier and Robert E. Nisbet, for City of Oakland.
Fred C. Hutchinson, City Attorney, and Robert T. Anderson, Assistant City Attorney, for City of Berkeley.
Robert J. Foley, City Attorney, for City of Albany.
John Joseph Garvey, for City of Richmond.
Dion R. Holm, City Attorney, and Paul L. Beck, Chief Valuation and Rate Engineer, for City and County of San Francisco.
Ralph W. Scott, Deputy Attorney General, and Warren P. Marsden, Attorney, State Department of Public Works, for California Toll Bridge Authority and State Department of Public Works.
Charles C. Miller, for San Francisco Chamber of Commerce.
Charles N. Ehlers, for Lakeshore Homes Association.
Stanley H. Newbart, for Carmen's Union, Division 192.
Frank Annibale, City Attorney, for City of Alameda.
Frederick Dubovsky, in propria persona.
Allan P. Matthew, for Thousand Oaks Improvement Association, Berkeley.
A. M. Cohan, for San Francisco Bay Area Rapid Transit Commission.
Dan W. Campbell, for U. S. Navy, 12th Naval District.
W. R. Roche, James Gibson and John Pearson, for the Commission staff.