

Decision No. 54293**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 METROPOLITAN COACH)
 LINES, a corporation for authority)
 to sell 78 rail passenger cars and)
 electrical overhead facilities.)

Application No. 38581

Waldo K. Greiner and James H. Lyons, for Metro-
 politan Coach Lines, applicant;
E. D. Yeomans, for Pacific Electric Railway
 Company, applicant;
John S. Frazer of Chapman, Frazer & Findley, for
 Westside Community Association; Mrs. Garret
 Rainey, et al.; Alan G. Campbell, Assistant
 City Attorney, for the City of Los Angeles,
 interested parties;
Harold J. McCarthy and John L. Pearson, for the
 Commission staff.

O P I N I O N

Under authority of Decision No. 48923 in Application No. 34249, the Pacific Electric Railway Company sold its rail passenger operations to Metropolitan Coach Lines. At the present time Metropolitan Coach Lines is conducting rail passenger operations on four routes; the Long Beach, San Pedro, Watts and Bellflower Lines. The rail facilities used are owned by the Pacific Electric Railway Company and the Metropolitan Coach Lines pays a rental therefor, which rental was authorized by the Commission in Decision No. 51980, dated September 30, 1956, in Application No. 37207.

In the instant application the Pacific Electric Railway Company proposes to sell to Metropolitan Coach Lines the electrical facilities being used on these four lines including 78 rail passenger cars.

A public hearing was held on December 7, 1956, before Commissioner Rex Hardy and Examiner Grant E. Sypfers at which time evidence was adduced and the matter submitted.

The evidence discloses that effective December 1, 1956, Pacific Electric discontinued the use of all electric operations, except certain operations on Santa Monica Boulevard which have no connection with the lines here under consideration. Accordingly the electric facilities here proposed to be sold will be used entirely for the rail passenger operations of Metropolitan. Of the 78 rail passenger cars proposed to be sold, 50 are now assigned in Metropolitan's regular operations and five are used as spares. It is proposed to use the remaining 23 as a source of supply for necessary replacement parts.

The purchase price proposed to be paid for the 78 rail passenger cars is \$125,000; \$5,000 of which will be payable in cash and the balance if and when the cars are sold for salvage. Metropolitan is to pay interest on the unpaid balance of the purchase price at the rate of 3½ per cent per annum. The overhead electrical facilities are to be sold for \$400,000; \$20,000 of which will be payable in cash and the balance if and when the facilities are sold for salvage. Metropolitan is to pay 3½ per cent interest on the unpaid balance of the purchase price. In each instance, the total sales price, including the down payments, to be paid by Metropolitan to Pacific Electric is to be adjusted so as to be equal to the amount of the actual salvage value obtained. The cars and facilities ^{To be} are sold for salvage if Metropolitan's use thereof ceases.

A proposed agreement under which the parties intend to effectuate this transaction was received in evidence as Exhibit No. 1. Further exhibits detailed and described the cars and facilities proposed to be transferred, as well as original costs and ledger values.

Metropolitan has filed with the Commission two separate applications seeking authority to substitute motor coach service for the existing rail service on its Bellflower and San Pedro lines.¹ Each of these applications pends undetermined by the Commission. Should these applications be granted by the Commission, the cars and facilities used in those operations will be sold by Metropolitan for the salvage value thereof.

Pacific Electric is desirous of completing this sale before the end of 1956 in order to secure the benefit of an estimated federal income tax saving. It was testified that the sale will result in a loss of \$924,832 to Pacific Electric, of which it is estimated that 52 per cent will be allowable as a tax deduction.

A witness for Metropolitan testified that the transaction would result in no additional cost to that company since the interest it will pay will approximately offset the present rental payments. In addition to this Metropolitan will get a determination of the value of the rail cars and facilities, and its liability therefor will be limited since it will not have to return them to Pacific Electric. It was further testified that Metropolitan will receive an additional advantage as to future operations in that it can maintain these facilities for approximately \$30,000 a year less than the present costs of maintenance. Under the present arrangement Metropolitan is paying Pacific Electric a percentage of maintenance costs computed on a ton-mile basis; and inasmuch as Pacific Electric no longer uses these facilities, all maintenance is chargeable to Metropolitan.

¹ Applications Nos. 37570 and 38626.

A consideration of all of the evidence adduced in this matter leads us to conclude that the proposed sale is not adverse to the public interest. The agreement proposed between the parties will be approved.

O R D E R

Application as above entitled having been filed, a public hearing having been held thereon, the Commission being fully advised in the premises, and hereby finding it to be not adverse to the public interest,

IT IS ORDERED:

1. That the Pacific Electric Railway Company is hereby authorized to sell and the Metropolitan Coach Lines to buy the electrical facilities and the 78 rail cars herein before described and in accordance with the terms of the agreement attached to the application.

2. That the Pacific Electric Railway Company and the Metropolitan Coach Lines are authorized to enter into and execute an agreement in the same form as that attached to the application.

3. That the authority herein granted shall not be construed to be a finding of the value of the facilities authorized to be sold and acquired for rate base, nor for any other purpose.

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

Dated at San Francisco, California, this 18th day of December, 1956.

Arthur E. Pritchard
 President

Raymond J. ...

Marshall ...

W. H. ...

E. J. ...
 Commissioners