BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D.C.

ORDER NO. 563

IN THE MATTER OF: Served January 26, 1966

Application of D. C. Transit System, Inc., for Authority to Increase Fares.) Application No. 226

Docket No. 32

APPEARANCES:

As previously noted.

SUPPLEMENTAL FINDINGS TO ORDER NO. 245

On April 12, 1963, the Commission entered its Order No. 245. That order, inter alia, authorized D. C. Transit System, Inc., (Transit) a 1-1/4¢ increase in token fares, from 5 tokens for $1.00, to 4 tokens for 85¢. Transit, protestants Williams and Trask, and the intervenor General Services Administration sought review.

On April 8, 1965, the United States Court of Appeals for the District of Columbia Circuit handed down its Opinion, remanding the case to the Commission "for further proceedings consistent herewith to determine the margin of return over and above operating expenses that Transit should be allowed." D. C. Transit System, Inc., v. Washington Metropoliton Area Transit Commission, 350 F. 2d. 753 (1965), at 780. Additionally, two other matters were raised in the opinion which require our attention and consideration.

It should be noted that the composition of the Commission has changed since the issuance of Order No. 245. Two new members are now on the Commission and this factor alone requires a new and comprehensive analysis of the record by the entire Commission.

The Commission is of the opinion that further hearings are not necessary. Pleadings filed with the Court subsequent to the date of the Court's opinion consumed several months. Before the Commission could act, Transit filed a new application for increase in fares. Voluminous data was developed at hearings on the new application. We feel that all answers to questions raised in the remand opinion not existing in the record of this proceeding are contained in the record of the new proceeding. A separate proceeding to redevelop facts already before us would be undesirable. Therefore, where it has been necessary for us to utilize the new record, we have so indicated.

The Commission now addresses itself to the question as to whether any portion of the proceeds from the sale of the Georgia and Eastern Terminal should be passed on for the benefit of the riders. The Court Opinion states, "The only evidence before the Commission regarding this sale does indicate that the terminal was sold more than three months after the close of the audit period on which the Commission's projections are based. This may explain why no effort was made by any party to establish the reasons for the sale." D. C. Transit System, Inc., v. Washington Metropolitan Area Transit Commission, 350 F. 2d 753, at 775-776. A review of the transcript reveals that retirement of this property was not associated with the retirement of rail property. While the rail system was in use, the Georgia and Eastern Terminal served in a dual capacity, both as a terminal for rail service and for bus service. After the rail system was phased out, the terminal was used exclusively in bus operations. Sometime thereafter, due to request of riders to move the terminal further north, the company relocated its terminal in Silver Spring and discontinued the terminal facilities at the Georgia and Eastern location. It is apparent to the Commission that the termination of this facility as property used and useful in the transit business was predicated solely on a realinement of its bus terminal facilities and its removal from service was completely disassociated with the termination of the rail operation. Thus, it is our determination that the sale of the terminal was occasioned neither in whole nor in part by the abandonment of rail operations. Therefore, the ratepayer is not entitled to share in any portion of the proceeds of that sale, unless there was a profit on the depreciable portion of the asset sold. There was none in this case.

The second question raised by the Court in its opinion related to depreciation. The issue was raised that the Commission should not have used the $693,870 depreciation allowance because there may have been an over-accrual in the depreciation projected as of August 15, 1963. The Court noted that the evidence was incomplete and contradictory and based largely on transactions that occurred after the close of the audit period. Now, however, all the results are in. August 15, 1963, has come and gone since the Commission entered its order. By Order No. 289, served July 29, 1963, the Commission ordered a full scale depreciation study of all operating property of D. C. Transit System, Inc., other than buses. The Stone and Webster Service Corporation, consulting

engineers, was engaged to make the study and prepare a report. The Stone and Webster Service Corporation submitted its final report to the Commission on the date of July 1, 1964. By Order No. 381, served September 11, 1964, the Commission noted as follows: "At the 1963 hearing, the Washington Metropolitan Area Transit Commission staff pointed to the possibility of an over-accrual of $305,559 against rail properties as of August 15, 1963, due to a favorable salvage experience. The Commission took cognizance of this possibility and of the equal possibility that offsetting under-accruals in other accounts may develop by August 15, 1963, stating that it will consider ordering a new depreciation reserve study at an early date." This study resulted in a determination by the Commission that there was in fact an under-accrual of the depreciation reserve, or, stated another way, that the depreciation reserve was deficient by $1,223,099.04. Therefore, we find there was not an over-accrual of depreciation and it is not necessary to make any adjustment in the $693,870 allowance.

In Order No. 245, future results under fares prescribed by the Commission were estimated to be as follows: Operating Revenue -- $30,420,638; total Operating Revenue Deductions amounted to $28,939,892, resulting in net operating income of $1,480,746.

The Court expressed no opinion regarding the adequacy or inadequacy of the return allowed by the Commission, for it thought that the order did not admit of the kind of meaningful judicial review contemplated by the statute. A "just and reasonable" rate, we are told, is one that assures that all the enterprise's legitimate expenses will be met, and that enables it to cover interest on its debt, pay dividends sufficient to continue to attract investors, and retain a sufficient surplus to permit it to finance down payments on new equipment and generally to provide both the form and substance of financial strength and stability. As we have previously set forth the legitimate operating expenses, we now turn to an accounting of the 4.87% of the total revenues expected to be realized from the approved rate structure and to explain why this is the appropriate margin.

During the hearing the Company stated that it would purchase 75 new buses in the year 1963, under certain circumstances relating to changes in its depreciation rate. In its decision the Commission authorized a change in the depreciation schedule, decreasing the depreciation period from 17 years to 14 years for all buses placed in service subsequent to 1956. Additionally, the Commission required Transit to place an order for 82 new, air-conditioned buses to be placed in service on or before October 1, 1963, and beginning in 1964, ordered Transit to purchase on the average each year a number of new, air-conditioned buses equal to 1/14th of the buses in its fleet. The cost of a new bus at that time was estimated at $33,500. In the past, Transit was able to finance its buses generally over a ten-year period at a 6% interest cost. Additionally Transit opened and dedicated its new bus maintenance base on October 30, 1962. The cost of the building, including land, is approximately $3,500,000, of which $1,800,000 is being financed.

The Company presented testimony that its system rate base as of August 31, 1962, was $21,583,740. This includes an amount for working capital for materials and supplies as of that date in the amount of $607,290. It estimated its rate base as of December 31, 1963, in the amount of $24,512,390. This rate base includes working capital for materials and supplies in the amount of $635,664. The Company also presented testimony and exhibits relating to a quantitative study of the comparative cost of capital among public utility groups for a period of years between 1959 and 1961. Its Exhibit No. 33 was designed to show the capitalization of a large number of utility companies as classified in various categories, including Transit, within the period of 1959 to 1961. Its expert witness testified that the transit industry secures a relatively small part of its capitalization from debt sources, which he stated is the lowest cost of capital. He further noted that telephone companies have historically relied less on debt capital than on equity capital. In developing the cost of debt capital, applicant considered the bonds and notes of specified companies by groups, and attempted to determine the market value of debt capital by taking an average of the high and low price of the various bonds and notes, and multiplying that by the face value of the bonds outstanding. He divided the market value of the debt capital into the interest payments on bonds and notes, to develop a range of yields, for the four stable utilities. These ranged from 3.97% for electric light and power to 4.16% for water companies. The average without weighting for the four groups was 4.2% as the price of debt capital for a stable utility, whereas in the transit industry the price was 6.22%. He concluded that the transit industry, in a three-year study period, based upon market evaluation of its securities, paid approximately 1-1/2 times as much for its debt capital as the so-called stable utility.

He made a similar analysis for equity capital, including both preferred and common stock. Again he used the same procedure. He developed an average yield on preferred and common stock equity. He found that for the stable utilities there was a yield ranging from a minimum of 3.4% to 4.4%, whereas transit common stock was being sold, based upon dividend yield, to pay 6.8%.

This witness further noted that the prime market rate for money lay between 3 and 4 percent, and that the investor who puts his money in something that is not prime is looking for a return that relates in some manner to the risk. He then developed the premise that risk in the telephone industry, for example, is very much less than the risk in investing in the transit industry. Accordingly, the earnings of telephone securities were 4.9%, whereas the earnings on transit stock were shown to be 8.7%.

The applicant also presented cost studies as developed on a price-earnings ratio basis. The company then attempted to consolidate the capital of all types, bonds, notes, and preferred and common stock, and then developed the average return on the market evaluation of

securities for the various industries. Transit's expert witness concluded from his study that the investor who was in possession of funds and who was interested in utility investment was demanding a much higher return on his money when he put it in the transit industry than if the same dollars were to be put in a stable utility. He declared that the reason for this was very obviously based upon the fact that transit earnings are highly volatile. He also concluded that everyone realized that an investment in the transit industry is hazardous and that the industry is not favorably looked upon by the investing public. Relating his expert testimony on the cost of capital to return on rate base, Transit's expert witness concluded that an investor would look for a return in a single transit company, of about 10% after taxes. This, then, was the appropriate base upon which to compute the reasonable earnings of such a transit company, based upon the value of its property rather than the value of its securities. The earnings should, in his opinion, be related to the physical value of the plant that is devoted to public service. The witness also prepared a study covering the same group of transit companies showing their earnings per share of commom stock over a period of several years. His exhibits and testimony were to the effect that earnings of D. C. Transit System, Inc., of Delaware, had been 12.92%, or very close to the median for the entire group of transit companies that he studied. He concluded from his testimony and exhibits that the market appraisal of D. C. Transit stock is such that the investor is asking for a little higher return on his security than for the average of the transit companies studied. He also presented the results of a study relating to the earnings as a percentage of the average market price of the common stocks of the companies he studied, including D. C. Transit System, Inc., of Delaware. He found that the dividends will generally run less than the earnings, and he further found that the dividends of the companies studied ranged from a high of 10.3% to a low of 4.8%. He stated that the mid-point of the sixteen companies he studied was approximately 7%, which was almost exactly what Transit had paid in relation to the average market evaluation of its Class A securities on the open market during the preceding three years. However, all of this witness' testimony was developed on reported book figures contained in Moody's and other manuals and sources of information. And his testimony must be qualified by his admission that he had no details on the finances of either D. C. Transit of D.C. or D. C. Transit of Delaware. What the witness attempted to convey was a typical picture of the industry based on a representative group of representative companies. The witness defended his hypothetical mix of capital results, declaring that he knew what the debt capital was going to cost and he knew, on the basis of industry experience, that a company is going to have to pay a great deal more for equity than for debt. He then qualified his hypothetical cost of capital by stating that even the result is not necessarily what would be a proper return, because you must allow, in any theory of return on rate base, the company to carry forward into surplus a certain amount of money to enable it to maintain itself against the "vicissitudes" of the future.

While he said it would cost 7.8% to get the money, he went on to say that this would not necessarily be a fair return. He noted, additionally, that the investor is looking for a return on what he actually paid. He also noted that the market price of various utilities is in a sense dependent upon the actual value of the assets of the utility. Although he admitted that companies often sell for either more or less than their asset value, they very seldom ever, he declared, sell exactly for the book value. As the witness stated, "I have developed theoretical figures to show what could be accepted by the Commission as a reasonable return." In recommending that a return of 6.8% on rate base was reasonable, the witness was predicating his testimony on a rate base of approximately $23,000,000.

This expert witness also recommended an operating ratio for Transit of 93% - 95%, which was based upon a study of rate decisions made by various utility commissions over the past twenty years. The witness noted that there was a prevailing tendency to establish a rate on an operating ratio in that range in those cases where the rate base is substantially less than annual revenues. The witness also explained his theory of the fundamentals of the operating ratio in the rate-making process. Generally, he stated, the operating ratio had been used for about twenty years by regulatory commissions in motor carrier cases as a measure of the amount of money that is required to maintain a healthy operating company. The reason he gave for the use of the operating ratio method in motor carrier cases as contrasted with the rate base method, is that the plant and equipment required by a motor carrier is generally less in dollars than its annual revenue. The risk, he stated, that is incurred by the investor in a transit company is a risk that it may not be able to meet its operating expenses. In elaborating upon this point he said:

> "In the case of the stable utility, as I referred to them before, the rate base is usually four or five times the annual revenue and relating the return to the rate base leaves a very substantial cushion in dollars to protect against contingencies and to insure the solvency of the company; whereas, if, in the case of a motor carrier with a low rate base in proportion to revenue, a return is allowed only on the rate base, there is a very substantial hazard that the company may not have enough money to meet its operating expense.
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> "So that, in the last analysis, what is required, and what operating ratio does, is to assure enough money to attract capital and to provide sufficient income over and above operating expenses to insure the financial soundness of the company, giving due consideration to the fact that there are many elements inherent in the transit industry that differ from those of the other utilities."

After enumerating the economic factors which distinguish the transit industry from other utilities, and from unregulated industries, the witness declared that the risk factors inherent in the operation of the transit industry are so much greater than the risk factors involved in the operation of any other utility that the dollars that are left over after meeting operating expenses should be higher in proportion to the total than in a stable utility.

The staff accountant computed Transit's rate base for the base period to be $17,466,137, and estimated the applicant's rate base at the end of the future annual period, December 31, 1963, to be $24,682,314. He then adjusted this figure by removing the balance of the acquisition adjustment account, which finalized his estimate of the rate base to be $22,104,219.

The protestants would allow the company a margin over expenses to (a) pay estimated debt expenses, and (b) pay a fair return to the stockholders on their equity in the company. Fair return on equity was determined by an earnings-price ratio. This ratio, their expert stated, represents the evaluation of the market place. He went on to say that it represents what the people who have capital are willing to put into an enterprise. He stated that it was his belief that a return based upon the cost of equity capital is a fair return to allow a public utility. Thus he would allow a margin sufficient to cover all cost of operations, all its interest expense, and a return to the investors. Therefore, he rationalized, after you have taken care of the debt obligations by covering all the interest, you have to look to see what you give to the investor. That, he stated, was the way to develop the fair return to the investor. This witness concluded that a fair return to equity stockholders be based on the cost of equity capital. The basis for this recommendation and that of the cost of equity capital is indicated by the earnings-price ratio that he developed. In support of this theory, he stated that this Commission should consider giving that return to the equity stockholder which maintains the price of his stock at the level of the book value of that stock. This is important, he stated, because the stockholder is entitled to earn what the market place says it is worth, and the earnings-price ratio is the measurement of that worth; the giving of a return to equity based on the earnings-price ratio by the Commission will allow the price of the stock to hover about the book value and this in turn means that the stockholder can always go to the market place, sell his stock, and get back for it what the stock is worth according to the books of the company. The witness developed his earnings-price ratio by referring to financial figures relating to twelve transit companies, over a ten-year period. Looking at that group as a whole, he determined an earnings-price ratio of eleven, which, he stated, was a somewhat lower ratio than for Transit. He recommended a return on equity for Transit in this case, arrived at from his study, of 12%. This upward adjustment was made

because the twelve companies he studied have lower debt ratios than Transit, and that the cost of equity would increase as the debt ratio increased.

He then developed earnings-price ratios for twenty-four electric utilities and the American Telephone and Telegraph Company, and also referred to a study made by a public accounting firm. After averaging these ratios in each year, he plotted the results on a graph, and drew the conclusions from the graph that large transit companies have higher cost of equity capital than the more stable utilities. This witness also set forth the earnings-price ratios of the publicly traded Class A stock of D. C. Transit System, Inc., of Delaware. This publicly traded stock of the Delaware parent, he stated, is a good index of the Transit Company's cost of capital, since the transit company represents the only substantial asset of the Delaware holding company. He then stated, "While the Class A stock of the parent has not been traded for a sufficient period of time to be used as an independent basis for determining Transit's cost of equity capital, it does provide a useful check point, to the extent that market data regarding the local company is available.

"It indicates that the cost of capital which I have recommended, based on the average experience of comparable transit companies, is conservative and perhaps on the high side of a reasonable range."

Translating this to dollars, it was the witness's opinion that Transit should be permitted to earn approximately $1,107,000 in the future annual period to cover the cost of its debt services and to provide a fair and reasonable return to the investors. This amount was further broken down by allocating $602,089 to interest payments and the balance, $504,838, as the fair return on equity, which he developed by multiplying his return factor of 12% on his developed average book equity figure of $4,206,990 for the year 1963. He thought this return was fully adequate and sufficient to provide both for the payment of reasonable dividends and for an increment to earned surplus. However, the witness made no attempt to break down this return and develop what would be an appropriate dividend, nor did he develop how much an increment to earned surplus should be provided.

On cross-examination the witness testified that he did not go into operating ratios on his direct testimony nor had he ever testified in the area of operating ratio theory. It was his view that the concept of the operating ratio as a method of determining rates is a tool, but to be used only in conjunction with a rate of return on investment. He further stated that he would prefer that the operating ratio method should not be used in this proceeding, and for this reason he used strictly a cost of capital investment method of determining what would be a fair and reasonable rate of return. He went on to state that if the operating ratio method were used, then he would consider his cost of capital determination and conclusions as a test of the reasonableness of a

particular operating ratio. The witness also admitted that he knew of no case in which a commission had adopted or used earnings-price ratio statistics in testing the rate of return computed under an operating ratio.

An agency of the United States government, the General Services Administration, presented a witness who testified as to the make-up of the rate base. He stated that he adopted the rate base figure before acquisition adjustment per the staff in the amount of $24,682,314. He proposed that the Commission should decrease the estimated rate base for 1963 in two ways: modify the rate base by deducting the balance in the acquisition adjustment account and the balance in the reserve for track removal and repaving. These two modifications total $5,753,715. This results in a modified rate base as of December 31, 1963, in the amount of $18,928,599. He then determined an average rate base by adding the above described modified rate base with a reconstructed rate base for August 31, 1962, arrived at after similar adjustments, in the amount of $12,610,312.

This witness did not offer any testimony as to rate of return.

The testimony in this proceeding further indicates that the market value of the D. C. Transit of Delaware stock for 1959 averaged $12.00 a share, $10.50 a share in 1960, and $11.70 a share in 1961.

We have before us then an abundance of testimony relating to returns authorized and/or earned by transit companies, telephone companies, electric companies, and gas companies. This information allows us to examine earnings on investments carrying, to some degree, a comparable risk, and are of some value when considered in relation to this particular company. No single rate of return is universally applicable to all transit companies in the United States. A fair rate of return varies with the times and conditions of a particular company as these conditions and opportunities exist at the time of the weighing of the facts in the making of a determination. What constitutes a reasonable rate of return is a question of fact, the solution of which calls for the exercise of sound judgment and common sense by the Commission.

We have weighed very carefully all testimony and exhibits in this proceeding, along with supplemental data where noted. We are of the opinion that fares producing an operating ratio in the range of 95 to 95.5 constituted a fair and proper return. The projected net operating income of $1,480,000 was the amount necessary to enable Transit to service its debt, pay reasonable dividends, retain a reasonable portion in its business, and to attract investments of private investors. It was, in addition, the amount necessary to maintain investor confidence and to protect the company from the risks peculiar to the transit industry and to Transit itself.

While there was no direct testimony as to the dollar amount required to be available for dividends, the record does show that $500,000 has been paid out annually over past years to the investors. In view of the fact that in the past three years the market price of the parent company has been relatively stable, it appears to us that the margin of profit allowed by the Commission was fair and reasonable to both the investor and the consumer.

We have taken every effort to insure that the fare payers pay no more than is necessary to insure the continued adequacy of the company's service and provide a return to the shareholders that is reasonable under the circumstances. For example, it should be noted that of the various fare resistance factors advocated before us, we have adopted the most optimistic. Thus, if we have over-estimated projected revenues by as little as one percent, the Company would receive $304,000 less net operating income. A net operating income of $1,176,746 would, in our opinion, be less than a fair return. On the other hand, we cannot close our eyes to the fact that the Company had estimated additional labor increases alone in the year 1964, in the amount of $900,000. Thus, a so-called bare-bones rate of return in 1963 could impair the financial stability of the Company, prompt an early return for a fare increase, and disrupt the measure of stability that has been achieved since 1956.

However, in order to determine the reasonableness of our decision, we look to a cross check of the rate of return on a net investment rate base. We find the staff's projected rate base for the future annual period of $22,104,219 to be the most accurate and reasonable presented in this proceeding. The operating income authorized Transit herein would produce a return on rate base of approximately 6½%. This would, in our opinion, indicate that the Commission has been conservative in the return authorized Transit. Moreover, we have considered but placed little emphasis on protestant's recommended rate of return utilizing the cost of capital method. It should be noted that more traditionally the computation of the cost of capital is done by determining the cost of debt and of equity and weighting the two for a composite rate. The protestants in this case disregarded this traditional method. We feel that the cost of capital method utilized is inappropriate in determining a proper rate of return for a transit company. Our view is reinforced when we consider the capital structure of this particular company. Other factors in addition to cost of capital should be considered in making the return allowance. These additional factors include the degree of risk involved, a comparison of earnings, the ability to attract capital, the economic conditions of both the market place and the community, the efficiency of management and the contribution to surplus. We have seen that the recommendation of the protestant's expert witness is based not on a mathematical formula but a weighing of any judgmental factors. Thus, the "judgment" factors tend to undermine the objectivity of the end results. This is especially true when the answers given by the witness on his cross-examination are compared with his direct testimony.

Indeed, the unusual capital structure of this Company has required all expert witnesses to depart from the norm, and exercise to a great degree their own individual judgment in consideration of the transit industry generally. The capital structure of this Company is a paradox. In an industry having a predominant capital structure of much equity and little debt, Transit's is just the opposite. And this of course has mixed results. On the one hand, the top-heavy debt structure allows the company to secure cheaper capital and allows the ratepayer to benefit from the income tax benefits. On the other hand, it undoubtedly raises the cost of equity capital and could, in fact, result in a higher cost of debt, especially in the future.

The Commission has been directed to make "a careful review and analysis of the earnings experience of Transit from its inception, and of what that experience has meant to the equity owners, both by way of dividend payments and growth in book values through retained earnings." D. C. Transit Sys. v. Wash. Metro. Area Trans. Comm'n. 350 F. 2d 753, at 780.

Investors have three goals: safety, income, and capital growth. The mix among these factors varies between investors.

Transit purchased the predecessor company for the sum of approximately $13.3 million. The book value of the property it purchased was approximately $23.8 million. The terms of the purchase included a $500,000 cash down payment, with the balance of the transaction covered by long-term notes. Testimony indicates that the equivalent price per share of stock at time of purchase was approximately $14.00.

We understand that the basis for the Court's suggestion to review past earnings is to help us arrive at a determination as to what might be a reasonable amount of earnings in the future. We are confident that the Court was not suggesting that we determine that the Company's future revenue should be offset by excessive earnings in the past, any more than we could require the future ratepayer to make up the difference of insufficient earnings in the past. We have, then, utilized our findings as to past earnings only as an aid in arriving at a determination as to what are reasonable earnings for the future.

Turning now to an analytical review of past earnings, we look to see if the stock can be considered relatively safe as an investment; whether dividend growth has occurred and to what extent, over the years; and whether there has been a stable capital growth. The answers to these preliminary questions will aid us in determining the scope of our inquiry.

We take notice of staff Exhibit No. 14 in the case now pending before the Commission for decision (Docket No. 101). This document, and the accompanying testimony, reveals that Transit has, since its creation to June 30, 1965, received $10,327,035 in net earnings. Interest payments have totaled $4,310,577. Other non-operating income has added $411,776. Direct charges or credits equal $1,524,591. Dividends in the amount of $3,890,000 have been paid, leaving a balance, as of June 30, 1965, of $4,062,825.

This balance must be tempered, however, by the fact that Transit received an extraordinary $2,251,218 profit from the sale of the Fourth Street properties in 1959. Thus, in analyzing the history of retained earnings of Transit, we find that the net operating income minus interest and dividends equals $2,126,458. Thus, over an approximate nine-year period, Transit has averaged, after payment of interest and dividends, an annual accrual to retained earnings of $235,000.

The net operating income of Transit through 1962 was relatively stable, profits ranging from $818,000 to $1,404,000. There has not been a year in which the Company operated at a loss. The rate of dividend growth has been zero since 1960. Considering the "inflationary" period since 1958, the income-providing ability of the stock has not increased at all.

Changes in market price alone do not provide a complete picture of capital growth. The subjective test of stock growth is an increasing trend in net earnings. Ignoring non-operating income and loss (which fluctuated wildly) and direct charges or credits (which also fluctuated greatly) to eliminate abnormalities, we note little growth trend in the earnings per share.

These factors standing alone have significance, but one must turn to an analysis of stock price for a determination of their effect. If the earnings were either excessive or too low, one thing would, in all probability, have occurred: increased trading and speculation would have caused the market price of the stock to vary drastically. The degree of stock price stability in the market place indicates to us that earnings in the past have not been excessive.

Transit has not been unknown to the regulatory agency having jurisdiction since its inception. The records show that its earnings have been scrutinized on an annual basis, for tax certification purposes. It has also been before the regulatory agency for rate cases in 1958, 1960, 1961, and in 1962-63. Probably no other regulated company in history has been subject to such an exhaustive earnings review. The District of Columbia Public Utilities Commission has enjoyed a reputation for expertise in the ratemaking field. In our review of its past decisions, necessary for other reasons in this proceeding, we have noted its exhaustive deliberations concerning this Company. We are convinced that the past earnings allowed Tranist have enabled investors to maintain confidence in their investment, having received reasonable dividends and a

slow, but steady growth, in book values through retained earnings. On the other hand, the Public Utilities Commission never ignored its role as the protector of the consumer. Its deliberations, moreover, have been reviewed by the judiciary and, where required, adjustments have been made. For example, $500,000 was removed from retained earnings in 1963 by Court order. This, we feel, has cured any excessive earnings which the Company may have realized in the past.

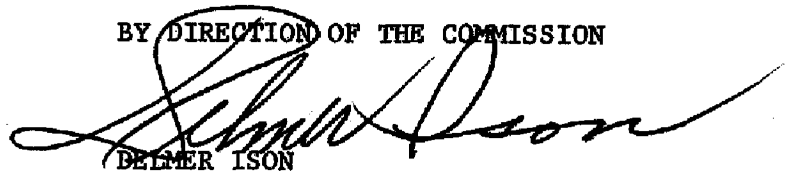
How does the fare structure prescribed by the Commission compare with the transit industry throughout the country? A summary of fares in cities having a population of 250,000 or more--excluding municipally-owned companies--showed that of thirty-seven companies, two had cash fares of 30¢, eighteen companies (including Transit) had 25¢ cash fares, and seventeen had less than 25¢ (ranging from 10¢ to 23¢). Token prices, transfer charges and weekly and commutation passes, revealed a veritable potpourri of prices. However, any discussion of fares must also recognize the greater importance of the token fare structure, for it is this fare which most affects the regular rider--as differentiated from the casual rider. Fourteen of twenty companies having a cash fare of 25¢ or higher had a token fare structure. Of the fourteen, only four had a token fare less than authorized in Order No. 245.

It should be recognized that a mere comparison of the monetary level of fares is of little value without a correlation with other factors such as the length of ride, geographical coverage, and standards of service such as availability of service, schedule frequency and condition of equipment.

The Commission is of the opinion and finds that the margin of return allowed in Order No. 245, both in dollars and operating ratio, was fair and reasonable, and should be affirmed.

THEREFORE, IT IS ORDERED that the findings and conclusions set forth in Order No. 245, as explained and detailed herein, be, and they are hereby, affirmed.

BY DIRECTION OF THE COMMISSION



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Executive Director