

ORIGINAL

Decision No. 38772

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 FOSTER TRANSPORTATION COMPANY, a )  
 partnership, for an order authorizing )  
 permission to increase fares on the ) Application No. 27074  
 Granada-Emery Park Motor Coach Line, )  
 and the Del Mar-Marengo Motor Coach )  
 Line, and to reroute the Marengo- )  
 Ynez and Granada-Emery Park Lines. )

Appearances

Emmet A. Tompkins, for applicant; and for the  
 City of Alhambra, and the Alhambra  
 Chamber of Commerce, interested parties.

Benjamin Chapman, for the Office of Price  
 Administration, interested party.

C. H. Soothill, for City of Los Angeles Board  
 of Public Utilities and Transportation,  
 interested party.

O P I N I O N

By this application Foster Transportation Company, a co-  
 partnership engaged in the business of transporting passengers by  
 motor bus as a common carrier within and between the incorporated  
 cities of Alhambra and San Gabriel and the communities of Wilmar and  
 Garvey in adjacent county area, seeks authority under Sections 15 and  
 63 of the Public Utilities Act to increase fares on less than statu-  
<sup>1</sup>  
 tory notice.

Public hearing was had before Examiner Bryant at Los Angeles  
 on January 14, 1946, and the matter is ready for decision.

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Originally the application sought authority also to revise certain  
 routes. At the hearing applicant asked that this portion of the  
 application be deleted, and no evidence was introduced relative to  
 routing charges.

The company's present fare structure provides for six-cent and ten-cent cash fares, with reduced fare tickets for commuters in the ten-cent fare zones and for students in both fare zones. The principal change which applicant now proposes is the cancellation of all six-cent fares and the establishment on all routes of a 10-cent-one-way cash fare. Incidental changes are the elimination of a one-dollar-adult-fare ticket for 13 rides within 10-cent fare zones, and establishment of a general cash fare of five cents for school students in lieu of one-dollar student tickets good for 25 and 20 rides in the six-cent and ten-cent fare zones, respectively.

The Foster Transportation Company is a partnership of two brothers and their father, and is managed by one of the brothers, Charles H. Foster, who is aided by his wife. The elder Foster is bedfast, and his participation in the business is limited to assisting in the formulation of policies, assisting in answering telephone inquiries, and reviewing the work of Charles H. Foster. The other brother is employed elsewhere and is not active in the affairs of the company.

Mrs. Charles H. Foster, who supervises the maintenance of the company's records, appeared as a witness in support of this application. She introduced and explained an exhibit which she had prepared to show results of the company's past operations and to set forth estimates of its future needs. According to the exhibit, operations were profitable until about the termination of the war in August, 1945; for the four months, August through November, 1945, a total loss of almost \$3,000 was shown. Estimates included in the exhibit indicated that if present fares are continued, the company would lose over \$1,600 a month, and that at proposed rates it would earn about \$160 a month or about \$1,900 a year. The witness asserted

that higher earnings would be reasonable, and comparable with earnings of other bus companies conducting operations of similar scope.

Charles H. Foster testified that five buses are operated in scheduled service; four others which are suitable only for stand-by service comprise the rest of the company's fleet. He stated that two of the regularly operated buses are almost worn out and should be replaced. The service life of buses which the company had purchased new he estimated to be five years.

Other witnesses who appeared for applicant were a representative of the City of Alhambra, a representative of the Alhambra Chamber of Commerce, and one of applicant's patrons. Resolutions of the councils of the cities of Alhambra and San Gabriel and a letter from an improvement association in the Wilmar-Garvey area were filed as exhibits of record. In general, these witnesses and exhibits asserted that applicant's services are necessary to the several communities and urged that the Commission give such consideration to this application as would assure the continuance of the bus operation.

A price economist of the Office of Price Administration testified that, according to some calculations which he had made in a preliminary analysis of applicant's exhibit, the proposed fares would return applicant a very large profit, and that an increase of about half of that sought would still return a substantial profit. He referred to an expense adjustment for depreciation which applicant made in 1945 figures and declared that this was contrary to established accounting principles. He stated that he had not had opportunity to study applicant's exhibit in detail; however, in view of the treatment given the depreciation adjustment, he felt that the validity of other figures in the exhibit should be questioned.

A transportation engineer of the Commission's staff testified that he had analyzed applicant's operating figures and had made adjustments to eliminate or reduce certain expenses which he considered as not properly chargeable to operations. The expense items affected were depreciation, superintendence of transportation, a general officer's salary, and telephone switchboard service. Using his adjusted expense figures and estimating annual revenue on the basis of the average monthly revenue received during August through November, 1945, the engineer calculated that at present fares applicant's operations during 1946 would return a net profit of about \$4,200.

The estimates of applicant, of the economist, and of the engineer are set forth in the following table:

	<u>Total Operating Revenues</u>	<u>Total Operating Expenses</u>	<u>Net Operating Revenue</u>
<u>Applicant</u>			
1945* .....	\$65,929	\$66,700	\$ (771)
1946 present fares .....	59,608	79,396	(19,788)
1946 proposed fares .....	-	-	1,072
<u>Office of Price Administration</u>			
1946 proposed fares	-	-	\$17,000
1946 partial increase	-	-	7,000
<u>Commission Engineer</u>			
1945* adjusted, present fares	\$65,929	\$58,540	\$ 7,389
1946 adjusted, present fares	62,724	58,540	4,184

\*For comparative purposes, the operating figures for eleven months through November, 1945, were projected to an annual basis.

( ) Indicates loss.

The wide variations among the several estimates appear to be due largely to the selection of the data upon which they were predicated. Applicant's estimates for 1946 were based on operating results for September, 1945, and allowed for expected decreases in revenue and increases in expense. The economist's estimates were

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September assertedly was an average month, particularly with respect to passenger volume.

computed upon passenger volume figures for September, 1945, and the average loss figures reported by applicant for the months August, September and October, 1945. The engineer's estimates for 1946 were computed upon passenger volume figures for the four months from August through November, 1945, and upon his adjustments of the 1945 expenses. All of the figures include revenues and expenses of certain non-utility charter services which could not be segregated. Applicant stated that the charter services represented a minor phase of the operations, and that they were relatively more profitable than the utility services.

Applicant's revenue estimates were predicated upon its belief that future revenues would be reduced about 10 per cent as passenger traffic is diverted to private transportation when new automobiles and tires become more freely available. It also expected that the proposed fare increase, if authorized, would result in a further diversion of about six per cent in passenger volume to competing public transportation and to private vehicles. No data were offered to support the amounts of the estimated decreases.

Applicant's estimates for 1946 were based upon operating results for September, 1945. It did not show that the expenses of September were representative of an average month. In addition to expanding the actual expenses for the month to cover a year's period, applicant gave effect to several added expenses which it anticipated for the future. It calculated that depreciation expense would increase \$3,300 a year from additional assets to be acquired. However, recognition may not be given to expense estimates for depreciation of assets to be purchased at an indefinite time in the future. It was further estimated that wages and salaries would increase \$3,600 a year, and that the expense of parts and supplies would increase \$2,100 a year. Higher salaries and wages were not

shown to be definitely predictable, nor was it shown that the cost of parts and supplies would be as great as estimated. Future conditions can be considered only if they are reasonably certain. Applicant's expense estimates lack the degree of certainty necessary to permit their being given specific weight in any conclusions to be reached herein.<sup>3</sup>

The economist's preliminary calculations likewise were not sufficiently complete to permit their being used in measuring applicant's revenue needs. However, one specific adjustment of applicant's figure which he advocated was the exclusion from 1945 operating expenses of depreciation expense applicable to prior years. This adjustment, also made by the Commission's engineer, appears necessary and proper.

The Commission's engineer recommended another adjustment in applicant's depreciation figures. Applicant used estimated service lives of five years for vehicles purchased new and four years for vehicles purchased used. The engineer stated that, based upon his experience and his observation of other companies, it was his opinion that applicant's buses should be depreciated on a seven-year basis for those purchased new, and on a five-year basis for those purchased used. Consideration being given to applicant's admitted relative inexperience with the equipment principally used, the engineer's depreciation estimates seem to result in more reasonable charges to operating expense, for the purposes of this proceeding, than do those of applicant.

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<sup>3</sup> Applicant listed a number of other expenses which it believed would be probably incurred, but did not estimate the amounts involved. Some of these expenses were additional mechanics' and drivers' salaries as fleet increases; bookkeeping expense to set up new accounting system; depreciation on service car needed to replace partner's personal car partly devoted to business; and legal and auditing expense to be paid outside professional men to replace time donated by partner's wife.

Other adjustments set forth in the engineer's exhibits concerned applicant's charges to operating expense for superintendence of transportation, general officer's salary and telephone switchboard service. He stated that, considering the nature and size of the operation involved, an annual expenditure of \$3,600 for superintendence of transportation should obtain the degree of supervision required, and that the charge to expense should be reduced accordingly. He believed that the work of the elder Mr. Foster as a general officer could be transferred to Charles H. Foster and to the general office clerks, and that the expenditure for general officer's salary could be thereby eliminated. Also disallowed was the expenditure for telephone information service provided to applicant's patrons by a local taxi company. He thought that the general office clerks could provide sufficient information service during regular office hours. While these three adjustments may suggest economies which could perhaps be effected, the evidence does not warrant the conclusion that the expenses as actually incurred under present practices should be disallowed for purposes of this application.

In other respects the engineer's figures appear to provide the best available basis for measuring the results of applicant's operations. Eliminating the three adjustments in question would increase his expense figures by \$3,695 with the following results:

	<u>Total</u> <u>Operating</u> <u>Revenues</u>	<u>Total</u> <u>Operating</u> <u>Expenses</u>	<u>Net</u> <u>Operating</u> <u>Revenues</u>
1945 adjusted, present fares	\$ 65,929	\$62,235	\$ 3,694
1946 adjusted, present fares	62,724	62,235	489

The operating ratios would be 94.5 per cent for 1945 and 99.2 per cent for 1946, and the rates of return computed on his depreciated rate base of \$27,638 would be 13.4 per cent and 1.8 per cent for 1945

and 1946, respectively.<sup>4</sup> It seems clear from these figures that applicant's operations were relatively profitable for the year 1945, but that they cannot be expected to yield an adequate return during 1946 if continued at present fares. It also seems clear that if the 1946 level of passenger volume remains approximately the same as that of the latter part of 1945, and if 1946 expenses do not substantially exceed those of the preceding year, the higher fares which applicant seeks to establish will yield an excessive return.

From all of the evidence of record it is concluded that applicant has not justified the full increase applied for but should be permitted to make some increase in its fares if it is to earn a reasonable profit in the immediate future. Considering the essential character of the services which it is rendering, and its present and future financial requirements as disclosed on this record, we conclude that the additional revenue which may be expected to result from an increase of one cent in the fares now applicable within the six-cent fare zones is reasonably necessary to the continued operation of the applicant, and that the anticipated net operating profit under such a fare structure would be reasonable and not excessive.

Upon careful consideration of all of the facts and circumstances of record we are of the opinion and find as a fact that an increase of one cent in the fares now applicable within applicant's six-cent zones, as more specifically set forth in the order which follows, is justified. To this extent the application will be granted. In other respects it will be denied.

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The engineer's rate base, which he characterized as "liberal," appears reasonably to reflect the base upon which a fair return may be calculated. Applicant developed a rate base of \$25,435, but this figure was depressed by the excessive depreciation reserve and is in other respects improper.



O R D E R

The above entitled application having been duly heard and submitted, full consideration of the matters and things involved having been had, and the Commission now being fully advised,

IT IS HEREBY ORDERED that the applicant in this proceeding be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the following changes in its fare structure:

1. Increase present six-cent one-way cash fares to seven cents, with no change in transfer provisions.
2. Establish a five-cent one-way cash fare for students under eighteen years of age.
3. Cancel present \$1.00 multiple ride student fares.

IT IS HEREBY FURTHER ORDERED that in all other respects the above entitled application be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be void unless the fares authorized in this order are published, filed and made effective within ninety (90) days from the effective date hereof.

This order shall become effective fifteen (15) days from the date hereof.

Dated at San Francisco, California, this 12<sup>th</sup> day of March, 1946.

*Harold Anderson*  
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*James P. Hull*  
*James P. Hull*  
 Commissioners