27654-MB

Decision No. 39760

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN BERNARDINO VALLEY TRANSIT COMPANY, a corporation, for an Order or Orders granting permission to increase fares for the transportation of passengers on its passenger stage lines.	Application No. 27654

Appearances

William Guthrie, for applicant.

H. R. Griffin, F. H. Binney, Ken Dyal, R. J. Doyle and S. J. Shadigg, for the City of San Bernardino, for the San Bernardino Chamber of Commerce, and for various San Bernardino associations.

HULS, Commissioner:

O P I N I O N

By this application San Bernardino Valley Transit Company, a passenger stage corporation serving the City of San Bernardino and contiguous areas, seeks authority to increase certain of its fares.

Public hearing was had in San Bernardino on October 3 and 4, 1946. The matter is ready for decision.

Fares of applicant are published in its Local and Joint Passenger Tariff, C.R.C. No. 6. They are established on a zone basis, and range from 6 cents to 26 cents per one-way ride. Commutation fares are also provided by 30-day commutation books which are sold on the basis of $1.00 for 20 rides within certain 6-cent fare zones, and 90 cents for 10 rides within certain 10-cent fare zones. In this proceeding applicant seeks authority to increase its 6-cent cash fare to 10 cents, and to increase the present commutation ticket fare of $1.00 for 20 rides to $1.00 for 16 rides.[1]

[1] Applicant also contemplates reductions in certain fares. No authority is required to establish reduced fares upon proper notice to the Commission and to the public.

A witness for applicant asserted that need for increased fares had been brought about by sharp increases in operating costs, decreases in revenue due to decreased traffic, reductions in the fare structure, and the necessity of earning sufficient net revenue to permit necessary expansion of facilities and service. He said that increases in the costs of labor have been principal factors in increased costs of operation. When the company commenced operations in February, 1942, the wage rate for bus operators was 60 cents per hour; this wage rate has since risen to $1.10 per hour, plus increased allowances for overtime, vacations, and other privileges. The witness said that wages for other classes of labor have also been advanced, as have the costs of parts and supplies.

Applicant stated that notwithstanding increases in operating costs the company has indirectly reduced its fares and its revenue per passenger-mile by voluntarily extending transfer privileges, enlarging fare zones, and permitting patrons to travel farther for the same fare as its lines were extended. At the same time it has experienced decreases in operating revenue because of reduced patronage. Passenger volume reached a peak in May, 1945, and has since declined approximately 15 per cent. Applicant believed that passenger volume would continue to decrease to the extent of an additional 10 per cent. A witness testified that the increases in operating expenses and decreases in revenues have created a condition of financial emergency which threatens the company's stability. He asserted that the company would have to abandon essential service and postpone needed improvements unless increased fares are authorized.

Applicant submitted financial schedules to show the result of its own operations, and also intorduced financial schedules covering what it termed the "San Bernardino Transit System."[2] The principal exhibits upon which applicant relied were those of the system. Applicant recognized that other companies are not a party to the application, but explained that its purpose was to "reveal the entire local transit picture." It was asserted that in any event the figures of the applicant company would be proportionate to those of the system. According to the exhibits, the system faced a substantial loss for the year 1946 under current fares. Taking into consideration expected cost increases, it was estimated that under the proposed fares the system would earn an annual operating profit of $13,495 before non-operating expenses and income taxes.

A senior transportation engineer of the Commission's staff introduced and explained an exhibit in which he set forth figures gathered from a study of applicant's books and operations. In his study the engineer considered the combined operations of the system only. He said that the lines of the two operating companies serve contiguous areas, and that one line should not be considered without reference to the other. He estimated that under the proposed rates, after providing for anticipated expenses, the system would earn an annual net operating profit of $18,040 before income taxes.[3]

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2 San Bernardino Valley Transit Company, Transit Securities Company, and McKinley Transportation Company are collectively designated to the public as "San Bernardino Transit System." Transit Securities Company, a nonoperating corporation, has ownership identical with that of applicant herein. Transit Securities Company in turn owns McKinley Transportation Company, a Nevada corporation which operates buses over routes lying entirely within the city limits of San Bernardino. The operations of McKinley Transportation Company are conducted by the applicant, San Bernardino Valley Transit Company, under a contract between the two companies. They are wholly intra-city and the Commission has not undertaken to fix the rates of the McKinley Transportation Company.

3 The engineer's estimates were based upon a different period than that of applicant and were otherwise not comparable.

No one opposed the granting of the application. Witnesses who testified for several civic organizations in San Bernardino stressed the need of adequate transportation service. They praised the services of applicant as successfully meeting the principal transportation requirements of the community. Although they did not support the specific fare increases sought, they urged that higher fares be authorized to the extent necessary to provide for increased costs of operation and to maintain adequate service.

In this proceeding the Commission is called upon to determine whether or not, or to what extent, proposed increases in the local fares of San Bernardino Valley Transit Company are justified. For this purpose it should be fully informed of the operating results and financial requirements of the applicant company. Data relating to associated companies are germane, and perhaps necessary, but should not be expected to substitute for complete data relating to the company under consideration. When the applicant utility undertakes to base a showing of its own revenue needs principally upon a consolidation of its own figures with those of nonutility associates, including operations not involved in the proceeding, and supplies only meagre data concerning its own operating results and anticipated revenue requirements, the Commission is necessarily handicapped in determining the extent to which the sought fare increases are justified.

It was asserted that the consolidated figures should be accepted in lieu of those of the applicant company for the reasons that (a) they serve to "reveal the entire local transit picture," (b) some facilities are used jointly by applicant and the nonutility operator, (c) the two operating companies serve contiguous areas, and (d) the operating results of applicant were proportionately comparable to those of the consolidated system, and were therefore adequately portrayed by the consolidated figures. Only the latter reason suggests any sound basis for placing major reliance upon the combination figures, and this basis is weakened by evidence which indicates that the system has in fact had less favorable operating results than has the applicant alone.[4] The consolidated operating figures of the system and other data related thereto will be considered in so far as such evidence is indicative of the operating experience and revenue needs of applicant, but the conclusions to be reached herein will necessarily be based principally upon the evidence which relates to applicant only.

According to the figures submitted, applicant earned a small profit for 1945, and for the first five months of 1946. The operating ratios were high, being 99 per cent for the year and 98 per cent for the five-month period. Later figures for the applicant alone are not available, but in view of the testimony of both applicant's witnesses and the Commission engineer it is clear that profits will be transformed into operating losses for the year 1946. It is evident that applicant's revenues should be augmented, and that it should be authorized to make some increase in fares toward that end.

[4] Operating statements for the periods for which comparative figures were furnished indicate increased revenues for applicant in 1946. On the other hand operating results for the system as a whole were less favorable because of revenue reductions in other operations of the system. The relative revenue positions of the separate and combined operations are set forth in the following table:

	Operating Revenues				
	Gross	Net	Average Monthly Gross	Average Monthly Net	Net Per $1,000 Gross
Applicant					
Year 1945	$291,495	$2,768	$24,291	$231	$ 9.50
January thru May, 1946	132,285	2,729	26,457	546	20.63
System, except applicant					
Year 1945	$130,968	$1,918	$10,914	$160	$14.64
January thru May, 1946	37,591	77	7,516	15	2.05
System, total					
Year 1945	$422,463	$4,686	$35,205	$391	$11.09
January thru May, 1946	169,866	2,806	33,973	561	16.52

Precise determination of the revenue requirements cannot be made on this record. Neither current financial figures nor estimates for the future were submitted covering the operations of applicant alone. Considering all of the available data together, however, the record is convincing that if present fares were continued applicant's operating ratio for any representative period in the immediate future would be at least 10 per cent over that experienced for the first five months of 1946.[5] Projecting the five-month figures, as thus modified to cover a future year, it appears that applicant's operating loss at present fares would be approximately $24,000.[6] This anticipated loss under current fares must be taken into consideration in determining the sufficiency of any fares established for the future.

According to data taken from an exhibit submitted by applicant, the higher fares herein sought would increase the annual gross revenues of the applicant company by an estimated amount of $40,798 after allowance is made for anticipated adjustments in token use and decreases in patronage. Under applicant's over-all plan, this amount would be reduced by $15,629 through concurrent reductions in certain fares, leaving a net annual revenue increase of $25,169.

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[5] Applicant's witnesses testified that wages of drivers increased from 90 cents to $1.10 per hour on April 26, 1946, and that additional wage concessions were anticipated. Passenger volume figures submitted for the system indicate a downward trend in 1946, which was expected to continue into 1947. It may be calculated from exhibits of record that average monthly revenues for July and August, 1946 were about nine per cent below the average for the first five months of 1946. The engineer expected that revenues would further decline. He estimated that because of higher operating costs and lower revenues the system would lose $32,390 during the year ending September 30, 1947, if present fares were continued.

[6] Operating revenues and expenses for the five months were as follow.

Revenues	$132,285
Expenses	129,556
Net	$ 2,729

Applicant made no attempt to justify the particular fares herein proposed except on the basis of total revenue needs. It was not explained why applicant believed that some of its fares should be reduced, some left unchanged, and others increased by nearly 70 per cent. It is possible that the suggested fare structure was well considered, but on a record which is devoid of justification or explanation of particular rates the Commission cannot find justified a general rate readjustment such as that proposed by applicant.

Applicant submitted estimates of the passengers to be transported over each of the system's routes during the year ending August 31, 1947, predicated upon experience for two weeks in June, 1946, which was believed to be the "most average period that could have been found." According to this exhibit 5,645,447 passengers would be carried over applicant's own routes during the year, of whom 4,880,252 would travel within the 6-cent fare zones. Allowing for a five per cent diversion or diminution of traffic because of increased fares, as estimated by the Commission engineer, a fare increase of one cent for each passenger within the present 6-cent zones would provide an increase in annual gross revenue in the amount of $46,363.[7] Deduction of the operating loss of $24,000 hereinbefore referred to would leave an estimated profit of $22,363 before income taxes.

The record does not permit accurate measurement of the estimated profit in terms of annual rate of return upon a rate base. Applicant claimed that the value of property used and useful in operations of the system as a whole, as of September 30, 1946, was $376,806. This figure includes a number of large items which may not properly be recognized for rate-making purposes, and is clearly excessive as a

[7] Applicant's revenue estimates from increased fares allowed for a ten to fifteen per cent diminution or diversion of traffic because of the higher fares.

factor in calculating the reasonable rate of return.[8] The Commission engineer developed a depreciated rate base of $126,500 for the system, as an average for the year ending October 1, 1947. No rate base was developed for the applicant company alone. The estimated annual profit of $22,363, before income taxes, would represent a return of 17.68 per cent upon $126,500.

Measured in another way, an annual profit of $22,363 on applicant's operations would indicate an operating ratio of about 94 per cent. On this basis, six per cent of the gross revenues would be available for income taxes and profit after meeting all expenses of the operation.

In this proceeding the Commission has been called upon to authorize an increase in fares. Applicant did not submit financial or other information covering its operations beyond May, 1946, and its precise revenue needs are therefore indeterminate. Nevertheless, the evidence which was adduced in support of the application shows that some fare adjustment should be made in order to provide required revenues, and is convincing that an increase of one cent per passenger within the present six-cent zones, as hereinafter

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8 In arriving at a rate base applicant based valuation of physical properties owned at present market values. It included valuations for leased property, for a lease contract, for good will, and substantial allowances for prepayments and working capital. In the past historical valuations have been generally accepted for rate base purposes; the present valuations were not sufficiently justified to warrant their use herein. Leased property for which provision is made in operating expenses is not a proper element for rate base. Capitalization of the lease contract was not shown to be proper (See Sec. 52-b, Public Utilities Act). Accounting provisions heretofore ordered for the good will valuations involved indicate that such valuations should be excluded from rate base (Decisions Nos. 37279 and 38595). Allowances claimed for prepayments and working capital do not here appear justified, for applicant is compensated by its fare collections for services performed in advance of payments therefor.

authorized, is fully justified.[9] Should applicant deem that an additional or different fare adjustment is necessary, it may request further hearing for the purpose of submitting appropriate evidence.

Upon careful consideration of all of the facts and circumstances of record, it is found as a fact that the following increases in applicant's local fares are necessary and justified:

1. Increase present one-way cash fares of 6 cents to 7 cents.
2. Increase present charge of $1.00 for thirty-day commutation ticket good for 20 one-way rides to $1.20.

The following form of order is recommended:

O R D E R

Public hearing having been had in the above entitled application, the proceeding having been duly 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 San Bernardino Valley Transit Company be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public,

1. Increased local one-way fares of 7 cents cash in lieu of present 6-cent cash fares.

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[9] Applicant indicated that the fares of McKinley Transportation Company will be increased to correspond to any increase in the local fares of applicant. Unless this were done, passengers transferring from McKinley would pay a lower fare for the two-line trip than would be paid by passengers riding on applicant's line alone. No such fare structure is contemplated herein.

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2. An increased charge of ~~$1.00~~ $1.20 per thirty-day commutation ticket good for ~~16~~ 20 one-way rides in lieu of present charge of $1.00. ~~for 20 one-way rides.~~

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be void except to the extent that the rates and charges published pursuant to this authority are filed and made effective within ninety (90) days from the effective date of this order.

This order shall become effective ten (10) days from the date hereof.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Public Utilities Commission of the State of California.

Dated at San Francisco, California, this 16th day of December, 1946.

Harold P. Huls

Justus F. Craemer

Franck Havenner

Ira H. Rowell

R. T. [illegible]

Commissioners