

Decision No. 40294

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of SOUTHERN CITIES TRANSIT, INC., )  
a corporation, to increase rates )  
and fares for the transportation )  
of passengers between points in )  
the vicinity of Compton, Los Angeles )  
County, California. )

**ORIGINAL**

Application No. 28164

Appearance

Herbert Cameron, for applicant.

O P I N I O N

Southern Cities Transit, Inc., a corporation, is engaged in the business of transporting passengers by motor coach as a passenger stage corporation within and between the City of Compton, the communities of Downey and Bellflower, and intermediate areas. By this application it seeks to effect a general revision in its fare structure by establishing increased fares and revising fare zones.

Public hearing was had before Examiner Bryant at Los Angeles on March 20, 1947, and the matter is ready for decision.

Evidence was offered through exhibits and testimony of witnesses representing applicant and the Commission's transportation research division. The witnesses agreed that operating costs have risen materially during the past year. They believed that there was a declining trend in passenger riding, and that operations during the ensuing twelve months would result in a loss of between \$37,000 and \$40,000 unless fares were increased to compensate for the higher operating costs and the decreasing passenger volume. If the fares proposed by applicant were established, the company witness estimated

that the net operating revenue, before income taxes, would be \$9,633; however, the Commission's engineer estimated that the figure would be about \$21,815. The engineer also submitted figures to show expected revenue results from a fare structure which he had developed after studying applicant's operations. He estimated that this alternate fare structure, if applied throughout the year ending with February, 1948, would return to applicant a net operating revenue of \$9,155, or a net income of \$6,910 after allowance for income taxes. He was of the opinion that these returns would be reasonable and sufficient.

Applicant, in its present tariff, provides for three fare zones, and for adult fares ranging from 5 cents to 15 cents per one-way ride. It proposes to establish four zones, with adult one-way fares ranging from 7 cents to 20 cents, and incidental increases in school fares. The Commission's engineer favored a three-zone basis for fares instead of applicant's proposed four. He thought that the three-zone basis provided a simplified method of operating, and believed it would prove more satisfactory to both the public and applicant. Applicant's vice president indicated that he would somewhat favor the three-zone basis from an operating standpoint, but he doubted that it would produce sufficient revenue.

No one appeared in opposition to this application. Chamber of Commerce and newspaper representatives testified that the population of the areas which applicant serves is increasing, and that applicant is performing a needed service. They supported any fare increase which may be shown necessary for the maintenance of applicant's operations.

In several respects the revenue and expense forecasts of applicant's witnesses and of the Commission's engineer require specific comment. The revenue estimates included allowance for a five per cent decrease in passenger volume because of a general

downward trend in traffic, and a further allowance because of anticipated diversion of passengers following a fare increase. Applicant's witness was of the opinion that the latter diversion would be five per cent in all areas served; the engineer believed that a five per cent diversion would occur only in areas where adult fares are now 5 cents, with no diversion in other areas. The general downward trend referred to by the witnesses was not sufficiently established to be given specific weight in reaching our conclusions.<sup>1</sup> We believe, however, that allowance for a five per cent loss in traffic attributable to higher fares, as claimed by applicant's witness, is warranted. The reasons for anticipating that the diversion would be limited to particular fare zones were not given, and it seems reasonable to conclude that a general fare increase would have some effect upon travel in all areas.

Applicant's figures included the cost of leasing from an affiliated company all but one of the buses required in its operations. The Commission's engineer considered the vehicles as though they were all owned by applicant, and he included their cost in his estimated rate base and substituted depreciation expense for the rental allowances. It was explained that this method was followed as a matter of practice in order to rule out any consideration whether lease contracts between affiliated companies are equitable or otherwise. The engineer's method permits comparison of results under the existing lease with those which might obtain if the buses were owned. While the evidence does not show that the rental terms disfavor applicant or its patrons, this method of calculation does no injustice to applicant's showing in this proceeding, and will be

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<sup>1</sup> Analysis of applicant's revenue figures for the eight months preceding the hearing in this matter shows that the trend was upward for the last six months of 1946, and downward for January and February, 1947. It was not shown to what extent the fluctuations should be attributed to long-term trend or to normal seasonal factors.

used as the basis of our conclusions herein.

Some adjustments should be made in certain of applicant's other expense estimates. The estimated cost of fuel should be increased by \$200 to reflect an increase in the price of gasoline made immediately prior to the hearing. An item of \$1,600 for anticipated increased insurance expenses should be disallowed for the reason that it appears to be based largely upon conjecture. Depreciation expense should be reduced by \$556 to give effect to service life estimates made by applicant and the Commission's engineer.

Estimated operating results under the proposed fares, using as a basis the 12-month period ending March 31, 1948, after giving effect to all of the adjustments hereinbefore discussed, are summarized in the following table:

	Under Fares Proposed by Applicant	Under Fares Proposed by Commission's Engineer
<u>Revenues</u>	\$225,872	\$212,300
Operating Expenses(Except taxes) <sup>4</sup>	187,422	187,422
Taxes and Licenses	9,237	9,053
Total Operating Expenses	\$196,659	\$196,475
<u>Net Operating Revenue</u>	29,213	15,825
State and Federal Income Taxes	8,976	4,078
<u>Net Income</u>	20,237	11,747
Estimated Rate Base	94,365	94,365
Operating Ratio(Before Income Taxes)	87.07%	92.55%
Rate of Return(After Income Taxes)	21.45%	12.45%

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Details of the operating expenses are as follows:

Equipment, Maintenance and Garage Expense	\$ 43,533
Transportation Expense	99,582
Advertising, Insurance and Safety Expense	9,537
Administration	15,935
Depreciation	16,865
Operating Rents	1,970
Total	\$187,422

The record in this proceeding is convincing that applicant must be permitted to increase its fares in order that it may avoid further operating losses. From figures of record as summarized in the foregoing table it appears that the fares proposed by applicant would produce revenues greater than may be necessary or reasonable, and that fares suggested by the engineer would produce revenues sufficient to maintain applicant's operations and to provide a reasonable return.

Upon careful consideration of all of the facts and circumstances of record we conclude and find as a fact that fares, of the volume of those suggested by the engineer, are justified. To that extent the application will be granted; in other respects it will be denied.

O R D E R

Public hearing having been had in the above entitled application, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that applicant be and it is hereby authorized to establish, on not less than ten (10) days' notice to the Commission and to the public, increased fares and revised fare zones as follows:

<u>Fares (in cents) per one-way ride:</u>	<u>Adult</u>	<u>Student</u>
Between two points in the same zone .....	7	5
Between any point in Zone 1 and any point in Zone 2; or between any point in Zone 2 and any point in Zone 3(a) or 3(b)....	10	7
Between any point in Zone 1 and any point in Zone 3(a) or 3(b); or between any point in Zone 3(a) and any point in Zone 3(b).....	15	10

Zone DescriptionsZone No.

- 1 All routes westerly of intersections of Garfield Avenue and Compton Boulevard and of Garfield Avenue and Olive Street.
- 2 All routes not included in Zone 1, Zone 3(a) or Zone 3(b).
- 3(a) All routes easterly of intersection of Downey Avenue and Flower Street.
- 3(b) All routes northerly of intersection of Imperial Highway and Paramount Boulevard.

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

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

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 20<sup>th</sup> day of May, 1947.

Harold P. Kulis

Justin S. Quisenberry

W. A. Powell

A. J. Dunning

Kenneth Potter  
Commissioners