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Decision No. 40890

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of GLENDALE CITY LINES, INC., for authority to increase its fares.	Application No. 28583

Cosgrove, Clayton, Cramer & Diether by Leonard A. Diether and C. H. Hasbrouck for applicant; Henry McClernan and John H. Lauten for the City of Glendale; Archie L. Walters for the City of Burbank; Roger Arneberg by Clark H. Sturm for the City of Los Angeles.

OPINION

In this application Glendale City Lines, Inc., seeks authority under Section 63(a) of the Public Utilities Act to establish increased fares and revised fare zones.

Public hearings were held in this matter before Commissioner Mittelstaedt and Examiner Chiesa, at Glendale, on October 10, 1947, and at Los Angeles, on October 11, 1947, at which time the matter was taken under submission.

Applicant, through its transportation consultant, presented testimony relative to the earning position of the company, showing the estimated return under present fares and the fare structure set forth in its application. Representatives of the Commission's engineering staff likewise presented testimony relative to estimated earnings under present and proposed fares as well as under other fare structures, also testimony as to the adequacy of service.

A consulting engineer for the City of Glendale introduced a report on the financial results of operation for the calendar years 1941 to 1946, inclusive, but did not present estimates of the future earning position of the company.

The company and Commission witnesses differed sharply as to estimates of revenue to be expected, both under continuance of present fare and under the fare structure proposed by the company, and also as to the estimated cost of rendering service. The following table sets forth the two estimates for the twelve-month period ending October 31, 1948.

	Applicant's Exhibit #11		P.U.C. Staff Exhibit #17	
	Present Fare	Proposed Fare	Present Fare	Proposed Fare
OPERATING REVENUES				
Passenger Revenue	$354,563	$421,313	$401,810	$479,360
Other Revenue	2,716	2,716	7,520	8,700
Total	$357,279	$424,029	$409,330	$488,060
OPERATING EXPENSES				
Eq. Mtce. & Gar. Expense	$ 96,398	$ 96,398	$ 80,430	$ 80,430
Transportation	187,672	187,672	190,730	190,730
Traffic, Solic. & Advertising	2,860	2,860	3,240	3,240
Insurance & Safety	18,196	21,200	21,040	21,040
Adm. & General	25,576	28,913	24,650	24,650
Depreciation	42,719	42,719	33,120	33,120
Operating Taxes	32,857	32,857	31,740	31,740
Operating Rents	(5,658)	(5,658)	-	-
Total	$400,620	$406,961	$384,950	$384,950
Net before Income Taxes	$(43,341)	$ 17,068	$ 24,380	$103,110
Operating Ratio	112.13%	95.97%	94.0%	78.9%
Income Taxes	-	$ 5,879	$ 5,420	$ 40,150
Net Operating Income	$(43,341)	$ 11,189	$ 18,960	$ 62,960
Rate Base	$280,839	280,839	$203,380	$203,380
Rate of Return	-	3.98%	9.3%	31.0%
Miles Operated	1,044,648	1,044,648	1,060,000	1,060,000

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An over-all comparison between the two estimates of operation under present fares discloses the fact that applicant forecasts revenues $52,051 lower, and operating expenses $15,670 higher, than those developed by the Commission's staff.

The difference in revenue estimates arises from the fact that applicant and the Commission's engineer reach different conclusions as to the future trend of traffic. During June, 1946, the employees of applicant were on strike from the 6th to 15th, inclusive. Service was resumed on June 17 at a level considerably lower than that existing just prior to the strike. Applicant's witness estimates a 10.5% decline in passenger revenue in view of the down trend experience since March, 1947. On the other hand, the Commission's engineer was of the opinion that the depressed level of traffic, particularly since June, 1947, can be attributed solely to the strike, and that in instances where strikes had occurred in other communities, similar reductions in traffic were followed by a resumption of the original traffic level.

The principal differences in estimates of operating expenses pertain to maintenance of equipment and depreciation expense. Both applicant's and Commission's witnesses used estimates of cost on a mileage basis; applicant at 6 cents per mile and the Commission's engineer at 4.11 cents. The 6-cent rate, so the witness testified, is based on an estimate furnished by the company's operating department. The Commission's engineer based his costs on a detailed analysis of the mileage expected to be operated by different age groups of buses with estimated cost for each group.

The difference in depreciation expense estimates may be attributed to the manner of approach used by the two witnesses.

Applicant's estimate reflects the accounting procedure of the company which includes the net amount resulting from monies received from five buses leased to Pasadena City Lines, Inc., depreciated on a five-year basis, and that paid out for five buses leased from affiliated companies. For the purpose of computing depreciation expense, the Commission's engineer considered all buses in the Glendale operation as owned by the company. The estimates of rate base differed principally due to the theories employed. The components of the two bases are shown below:

	Depreciated Investment	
	Applicant Ex. #5	P.U.C. Staff Ex. #17
Structures, and motor coach, garage, and office equipment	$169,687	$178,250
Service value of fully depreciated motor-coach equipment	14,152	-
Land	45,000	15,130
Materials and Supplies	15,000	9,000
Organization	7,000	1,000
Working cash	30,000	-
Total	$280,839	$203,380

The various differences in these two estimates represent the views of the engineers who prepared them. Both estimates appear to have certain defects with respect to the generally accepted principles relating to the amount on which a carrier is entitled to earn a return.

The City of Glendale contends that certain revenue received by applicant from Pacific Electric Railway Company should be included as operating revenue. Said revenue is paid to applicant pursuant to an agreement between it and the Pacific Electric Railway Company which, among other things, provides:

> "5. Railway proposes to continue its interurban passenger service by railway or motor coach or both; Railway agrees to withdraw from local passenger service in the Glendale area, except local passenger service within the City of Glendale on its interurban cars or motor coaches or both, operated on Brand Boulevard, Glenoaks Boulevard and Glendale Avenue, so long as they continue to be operated on the same, or substantially the same routes. Railway agrees that said operating company shall have the right to engage in local motor coach service on Brand Boulevard, Glendale Avenue and Glenoaks Boulevard, and agrees that at no time will it oppose in any way the exercise by Glendale operating company of said rights.
>
> "It is understood and agreed that so long as said operating company does not operate on said above named streets, Railway will pay the said operating company:
>
> > "(a) Twenty-two and one-half per cent (22-1/2%) of the gross revenue derived by Railway from its local passengers whose transportation on Railway's line is confined wholly to Brand Boulevard within the city limits of Glendale, and . . .
> >
> > "(b) For a period of two years ten per cent (10%) of the gross revenue derived by Railway from local passengers whose transportation on Railway's line is confined wholly to the city limits of Glendale in connection with Railway's operations on Glenoaks Boulevard." (This provision is no longer in effect.)

The revenue from this source amounts to $1,388.33 per month or $16,660 per annum. Applicant contends that this revenue cannot be considered as derived from operations but is a payment for rights sold to the Pacific Electric Railway Company. It appears that Glendale City Lines, Inc. possesses the right for local service on Brand Boulevard and that the Pacific Electric Railway Company, in a sense, functions as its agent in so far as a portion of the local transportation on said street is concerned.

A review of the record with respect to this item clearly justifies the conclusion that the revenue received by applicant under this arrangement is operating income and should be so treated.

The evidence of record, including the estimates and forecasts hereinbefore discussed, leads us to the conclusion that applicant, with no change in its present fare structure, may be reasonably expected to earn a net revenue during the year ending October 31, 1948, of some $40,000 before income taxes, or approximately $25,000 after taxes. The operating ratio on this basis would be about 91% before taxes. It appears that such an operating result will provide a reasonable and adequate return for this operation.

Upon careful consideration of all the facts and circumstances of record, the Commission is of the opinion and finds as a fact that no increase in applicant's present fares has been justified. The application will be denied.

O R D E R

Public hearings having been held, the matter submitted, and the Commission being fully advised,

IT IS HEREBY ORDERED that the application of Glendale City Lines, Inc., No. 28583, be, and it hereby is, denied.

A. 28583 FJ

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The effective date of this order shall be twenty (20) days from the date hereof.

Dated at San Francisco, California, this 4th day of November, 1947.

Harold P. Huls

Justus F. Craemer

Ira H. Rowell

R. E. Mitchell

COMMISSIONERS