

Decision No. 41154

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
WILMINGTON TRANSPORTATION COMPANY, a )	
corporation, for an Order Authorizing )	Application No. 28824
an Adjustment in its Passenger Fares )	
and An Increase in its Freight Rates. )	

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C. F. Fennema and Gibson, Dunn & Crutcher  
 by Woodward M. Taylor, for applicant  
Roland Thompson, George Shaw and Ray Taylor,  
 for the City of Avalon, protestant.

O P I N I O N

Wilmington Transportation Company is a corporation engaged in the business of transporting passengers and property by vessel as a common carrier between Avalon and The Isthmus on Santa Catalina Island and Wilmington.<sup>1</sup> By this application it seeks authority to establish increased fares and rates and to effect certain changes in the rules and regulations applicable thereto.

Public hearings of the application were had before Commissioner Craemer and Examiner Freas on January 7 and 12, 1948, and the matter was submitted for decision.

Applicant's present passenger fares were first established as temporary fares early in 1942 under an order of the Commission (Decision No. 35019, 44 C.R.C. 36), and have been continuously in effect to the present time, except during a period when service was suspended during the recent war emergency.<sup>2</sup> In 1947 applicant sought authority to make the temporary fares permanent. Following public hearings, the Commission found that the further maintenance of the

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<sup>1</sup> As of December 30, 1947, the legal name of applicant was changed to Catalina Island Steamship Lines, Inc.

<sup>2</sup> Applicant's rates for the transportation of property have been in effect in substantially their present form continuously since 1935.

temporary fares had not been justified, and made its order authorizing the establishment of fares which were lower than the temporary fares but which were higher than the ones which the temporary fares had superseded (Decision No. 40515, July 8, 1947, in Seventh Supplemental Application No. 24757). The effective date of the latter order was stayed so that applicant might be afforded an opportunity in these instant proceedings to make a complete showing as to passenger fares and freight rates which it believes present-day operating conditions justify.

Since the time the Commission made its order in Decision No. 40515, supra, the company has made an extensive study of the various phases of its operations and as a result of such studies has revised certain operating practices and agreements which it considers to be outmoded. It has reviewed its revenue needs in the light of its revised operations and in the light of the conditions it anticipates for the future, and has concluded that the fare and rate changes which it proposes are necessary to maintain its public utility operations. The proposed changes are generally set forth and compared with the present fares or rates in the margin below.<sup>3</sup> The changes are set forth in

3 Passenger Fares between Wilmington and Avalon or the Isthmus:

	Temporary Fares Currently Effective	Fares Authorized by Proposed Decision 40515	Fares
Adult one way	\$ 2.47	\$ 2.25	\$2.26(a) 2.87(b)
Adult round trip	4.28	3.95	3.96(a) 5.04(b)
Special party fares			
30 to 99 adults, per adult ticket	3.76	3.40	Cancel
100 or more adults, " " "	3.09	2.80	Cancel
Commutation book containing			
20 one-way tickets	15.00*	15.00*	Cancel
10 one-way tickets	-	-	\$12.50

(a) Weekdays, exclusive of Saturdays, Sundays, or specified holidays.

(b) Saturdays, Sundays, or specified holidays.

\* No change from fares previously in effect.

Freight Rates between Wilmington and Avalon

Applicant proposes to increase present freight rates by 50 per cent.

detail in proposed tariffs attached to the application.

Evidence was submitted by applicant through exhibits and testimony of its general manager and of other witnesses including an advertising expert, valuation engineers and a certified public accountant. According to these witnesses, the business of applicant is primarily that of providing transportation for pleasure seekers and vacationists. The City of Avalon is maintained principally as a resort town. Compared to the transportation performed for pleasure seekers and vacationists, the volume of transportation performed for those who travel of necessity is small. In view of the nature of its traffic the success of applicant's business depends to a great degree upon its ability to induce pleasure seekers and vacationists to make the trip to and from Santa Catalina Island. For this reason applicant company considers it necessary to spend large amounts of money for advertising and for certain amusement facilities for its passengers while they are ashore at Avalon. The general manager testified that the company has enjoyed a record volume of business during 1946 and 1947, which volume he attributed largely to demand which had accrued during the war and to general prosperity during the last two years. He believed, however, that the present volume of traffic could

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In the City of Avalon applicant company operates a bird park and the upper portion of the casino wherein is located a ballroom. It also maintains a street orchestra and miscellaneous attractions. The bird park and the casino, in addition to their amusement aspects, are assertedly of great value to applicant as focal points for its advertising programs. The bird park and casino properties are operated under a lease agreement recently negotiated with the Santa Catalina Island Company, owner of Santa Catalina Island, with the exception of various properties within the City of Avalon. The Santa Catalina Island Company is sole owner of the stock of applicant company. It also owns and operates hotels and other accommodations on the island, offers sightseeing and pleasure trips by boat and motor bus, a theatre, golf course, and other businesses and attractions on the island, and is engaged in other activities such as furnishing to the City of Avalon its water, electricity and gas.

not be further maintained without considerable business-getting effort by the company and that the proposed fare adjustments and advertising campaigns to promote travel during slack periods were necessary.

Financial and other data which were submitted by applicant's witnesses include analyses of passenger volume, various revenue and expense analyses and comparisons, estimates of 1948 revenues and expenses, valuation figures for the physical properties, and rate base figures. Statistics of passengers carried show that the number of passengers transported during 1947 reached a record figure of 434,500. Analysis of the statistics indicates that approximately 70 per cent of the total number of passengers make the trip to and from the island during the months of June, July and August, and that travel reaches its peak on Saturdays, Sundays and holidays. The exhibits set forth revenue and expense figures in detail. One such exhibit contains figures to show that operating costs on the peak days of travel exceed those costs on other days by about 45 per cent. Another exhibit, which pertains to the company's freight operations only, indicates that the 1947 revenues, which totaled \$106,183, failed by \$31,953 to meet out-of-pocket operating costs before allowance for any joint costs of operation. According to a summary of applicant's net earnings from 1920 through 1946, the company's public utility operations have resulted in an average rate of return of 3<sup>5</sup> per cent on the value of the properties devoted to such operations. Applicant estimated that if the proposed fares and rates are in effect throughout the year 1948 they will result in an increase of \$67,000 in passenger revenues and an increase of \$51,000 in freight revenues. The estimated operating results for 1948 are summarized in Table 1

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The average rate of return shown is 3.6 per cent of a rate base calculated on undepreciated costs of the properties and 2.6 per cent of a rate base calculated on the depreciated costs. Rate of return figures for 1947 operations were not submitted. However, it can be computed from the exhibits that the rate of return earned from 1947 operations was less than the averages stated.

which is set forth subsequently herein. Rate base figures were developed and submitted on four different bases to show the results which would obtain from the valuation of the operating properties on the basis of undepreciated original costs (sinking fund method), of depreciated original costs (straight line method), of present replacement costs, and of present fair values. The accountant-witness stated that, consideration being given to the nature of applicant's operating properties, it was his view that the rate base developed by the sinking fund method provides the fairest basis for measuring applicant's earnings.

Evidence relating to applicant's operations was also submitted by an accountant and a transportation engineer of the Commission's staff. The accountant submitted a financial report of applicant's operations for the eight month-period ended August 31, 1947, and the engineer introduced comparative estimates under present and proposed fares of the operations during 1948. The engineer's estimates differ from those of applicant's witnesses in that his revenue estimates are somewhat lower and his expense estimates are somewhat higher. Moreover, the engineer employed a lower rate base figure in measuring the anticipated operating results.

The estimates for 1948 which were supplied by applicant's witnesses and by the Commission engineer are summarized and set forth in Table I which follows:

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 Current rate base figures so developed were as follows:

Depreciated original costs (straight line method)	\$1,002,553
Undepreciated original costs (sinking fund method)	2,518,493
Present replacement costs	6,636,062
Present fair value	2,465,580

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 The difference in rate base figures is due largely to a difference in estimates of the working capital requirements of the company.

TABLE 1

Estimated Results from a Year's Operations  
Based on Revenue and Expense Estimates for 1948  
(Figures are stated in thousands of Dollars)

	<u>APPLICANT</u>		<u>COMMISSION ENGINEER</u>			
	<u>Proposed Fares</u> <u>(1)</u>	<u>(2)</u>	<u>Present Fares</u> <u>(1)</u>	<u>(2)</u>	<u>Proposed Fares</u> <u>(1)</u>	<u>(2)</u>
Operating Revenues	\$2,209	\$2,209	\$2,082	\$2,082	\$2,168	\$2,168
Operating Expenses	<u>2,100</u>	<u>2,064</u>	<u>2,161</u>	<u>2,137</u>	<u>2,161</u>	<u>2,137</u>
Net Operating Revenues	\$ 109	\$ 145	(79)	(55)	7	31
Income Taxes	<u>44</u>	<u>58*</u>	-	-	<u>2</u>	<u>9</u>
Net Operating Income	\$ 65	\$ 87	\$(79)	\$(55)	\$ 5	\$ 22
Rate Base	\$1,003	\$2,518	\$ 730	\$2,273	\$ 730	\$2,273
Operating Ratio (Before Income Taxes)	95%	93.4%	103.8%	102.6%	99.7%	98.57%
Rate of Return (After Income Taxes)	6.48%	3.46%	-	-	.69%	.95%

( ) Indicates Loss

\* Adjusted figure

- (1) Assumes depreciation expense computed on a straight-line basis and the straight-line method followed for calculating rate base.
- (2) Assumes depreciation expense computed on a sinking-fund basis and the sinking-fund method followed for calculating rate base.

Note: - In the calculation of sinking-fund requirements, applicant employed an interest rate of 6 per cent whereas the interest rate used by the engineer was 3 per cent. Annual charges to depreciation expense would be lower under applicant's method of calculation.

Granting of the application in so far as it pertained to restrictions on the use of commutation tickets, was opposed by representatives appearing for the City of Avalon. These representatives withdrew their protest upon amendment of the restrictions involved by stipulation of applicant.

In this proceeding applicant undertook to make a full showing of its operations to justify the fare and rate changes it seeks to establish. In general, the record well substantiates applicant's contentions that the proposed changes are reasonable and necessary. Although considerable variation is shown in the foregoing table between the estimates of 1948 operating results which were submitted by applicant and by the Commission engineer, it appears that such variations largely represent differences in judgment. It appears that in certain instances the expense estimates of applicant may be low in relation to the expenditures it will be called upon to make during the ensuing year. Some question may be raised as to whether a portion of the expenses chargeable to applicant for the operation of the upper portion of the casino and of the bird park should be borne by the Santa Catalina Island Company, since enterprises operated by this company undoubtedly share in the benefits accruing from the operation of the casino and the bird park. On the other hand applicant undoubtedly

Applicant originally sought authority to restrict the use of commutation tickets to the purchaser only, but agreed to the amendment of the proposed restriction to permit the use of commutation tickets by the purchaser thereof, his wife, and his dependent children providing that such users will sign the books of tickets at time of purchase.

One proposed change, to increase classification ratings on certain articles, was not supported by evidence. Authority for such change will be denied. Applicant may supply evidence with respect to this change in a separate proceeding.

derives some benefits from the Santa Catalina Island Company enterprises. What adjustments, if any, should be made in the charges for the casino and bird park cannot be made on this record. However, we believe it unnecessary to resolve any questions as to the precise charges for the bird park or casino operations or as to the variations between the estimates of the applicant's and of the Commission witnesses. Consideration being given to the nature of applicant's business, that it is primarily an amusement business and subject to the greater risks of loss that usually attend such businesses, it is clear that the increased fares and rates will not result in excessive revenues. We conclude and find as a fact that except as noted in the order which follows, the proposed fares and rates are justified. The application will be granted.

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

(1) Catalina Island Steamship Lines, Inc. (formerly Wilmington Transportation Company) be, and it is hereby authorized to establish and to assess for transportation performed between Avalon and The Isthmus, Santa Catalina Island, and Wilmington, increased fares and rates and to revise its tariff rules and regulations, as such fares, rates, rules and regulations are set forth in its proposed Local Passenger Tariff, Cal. P.U.C. No. 21 and its proposed Local Freight Tariff, Cal. P.U.C. No. 7, which tariffs are attached to and are part of its application; except that

(a) The rules and regulations so established as pertaining to commutation tickets shall not be more restrictive than those to which applicant agreed by stipulation at the hearing in this proceeding; and except that



(b) The authority granted herein does not extend to the establishment of the increases in classification ratings as included in the proposed Local Freight Tariff, Cal. P.U.C. No. 7.

(2) Tariff filings made pursuant to the authority herein granted may be made effective on not less than one (1) day's notice to the Commission and to the public.

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

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

Dated at San Francisco, California, this 19<sup>th</sup> day of

January, 1948.

*R. J. [Signature]*  
Justice J. Casner  
*[Signature]*  
Harold T. Kule  
*[Signature]*  
Commissioners