

ORIGINAL

Decision No. 42291

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
the LOS ANGELES TRANSIT LINES, a)
corporation, for authority to adjust)
and increase fares through the) Application No. 29448
elimination of token fares and the)
\$1.50 weekly pass.)

Gibson, Dunn & Crutcher, by Max Eddy Utt, for applicant.
K. Charles Bean, T. M. Chubb, and Roger Arnebergh, for City of
Los Angeles; Edith Marvin for Los Angeles County Pioneers; Everett
Parker for Utilities Union Council of Southern California; George
P. Tucker for the Los Angeles Chapter of Southern California Small
Home Owners' League; and Theodore K. Resmey for Citizens Transit
Committee of Los Angeles, protestants.

O P I N I O N

Los Angeles Transit Lines requests authority to adjust
and increase its fares by making the following changes in its
present intrazone fares:

- (1) eliminate and discontinue all token fares;
- (2) eliminate and discontinue the \$1.50 weekly pass.

Under applicants proposal all other forms of fares are
to remain unchanged.

Public hearings were held in Los Angeles on September
1, 2, and 29, 1948, before Commissioner Craemer and Examiner
Syphers. On the last-named date the matter was submitted.

At the hearing the witnesses for the applicant were its
president, its vice president and comptroller, director of planning,
and its valuation engineer. Also, there was testimony presented by
the City of Los Angeles, and by an engineer of this Commission.
This testimony included evidence that applicant company has sus-
tained substantial increases in the cost of providing service as
a result of increased cost of materials and supplies and a wage
increase effective June 1, 1948, whereby the company increased the

wages 5 cents per hour and also agreed to contribute to a pension plan in an amount of approximately 6 cents per hour for each employee. It was estimated that the cost of providing the wage increase and pension fund payments would amount to \$1,100,000 per annum. A further wage increase was effected August 19, 1948, which provided for an additional increase of 3 cents per hour, retroactive to July 1, 1948. This will increase expenses an additional \$300,000 per year. Evidence and exhibits were presented to show that traffic has been decreasing since early in 1947, and also that there has been a corresponding down-trend in revenues. Exhibit 1, submitted by applicant, contains graphs, charts, and tables in support of these contentions.

The evidence presented by applicant shows that, as of July 31, 1948, it had current assets in the amount of \$3,050,850.08, while its current liabilities amounted to \$2,434,905.42. Applicant urges that to be on a sound basis its current assets should exceed its current liabilities by \$1,000,000. It does not urge the Commission to include in the rate base all of its current assets, but is of the opinion that \$1,000,000 should be included as cash for working capital. Reference will hereafter be made to the rate base suggested by applicant, the City of Los Angeles and the engineering staff of the Commission.

While there were variances as to individual items in applicant's evidence as to increasing costs and declining revenues, yet all evidence presented in this proceeding, by applicant, as well as others, supports the general contention that applicant is presently operating on a very narrow margin and that an increase in fares is justified.

Estimates as to the results of operation under present fares and the proposed fares, were presented by applicant, the

City of Los Angeles, and the Commission engineer. The following table summarizes these estimates:

Estimated Results of Operation at Present
and Proposed Fares (after 1948 pay roll increases)

<u>Present Fares</u>	<u>Applicant⁽¹⁾</u>	<u>City of L.A.⁽²⁾</u>	<u>Comm. Engr.⁽³⁾</u>
Total oper. revenue	\$24,409,503	\$25,635,000	\$24,740,700
Total oper. expenses	24,931,775	25,117,000	24,552,600
Net oper. revenue	(522,272)	518,000	188,100
Income taxes	--	60,000	--
Net income after taxes	(522,272)	458,000	188,100
Rate base	26,946,804 ⁽⁴⁾	19,367,000	27,003,000
Rate of return		2.36%	0.7%
<u>Proposed fares (10¢ cash - no tokens or passes)</u>			
Total oper. revenue ⁽⁵⁾	25,632,890	26,881,000	26,786,200
Total oper. expenses	25,041,458	24,845,000	24,592,400
Net oper. revenue	591,432	2,036,000	2,193,800
Income taxes	132,802	663,000	727,500
Net income after taxes	458,630	1,373,000	1,466,300
Rate base ⁽⁶⁾	26,946,804	21,257,000	27,003,000
Rate of return	1.7%	6.46%	5.4%

(Red Figure)

- (1) Applicant's estimate is based on the year from June, 1948, to May, 1949.
- (2) Estimate of City of Los Angeles is based on a 12-month calendar year but not confined to any specific dates.
- (3) Estimate of Commission engineer is based on year ending October 31, 1949.
- (4) Applicant presented two rate bases - a composite rate base of \$46,353,401 and a straight-line base as shown.
- (5) Estimate as to diminution of traffic by the company was 6.6%, by the Commission engineer 3%, and by the City of Los Angeles none.
- (6) Only the estimate of the company reflects any allowance for working cash capital.

An analysis of the foregoing table discloses that the most liberal estimate as to the results of operation of the applicant company is contained in the testimony presented by the City of Los Angeles. The estimated results of operation under present fares, as set out by the applicant, the City of Los Angeles, and the Commission engineer, all result in an unreasonably

low rate of return. Applicant estimates a loss of \$522,272 and thus no rate of return, while the Commission engineer estimated a rate of return of seven-tenths of one per cent and the City of Los Angeles estimated a rate of return of 2.36%. Thus, under any view of the testimony presented as to the results of operation, under present fares, we must conclude that an increase in revenues is necessary.

There is a question in this matter, however, other than the rate of return to applicant; that question concerns the public convenience and necessity as such is related to the use of passes. Various public witnesses testified at the hearing in opposition to the discontinuance of weekly passes. These witnesses consisted of individuals and representatives of groups whose members are users of the weekly pass. The bulk of their testimony was to the effect that these passes are a decided convenience and that there is strong public desire that they should be continued. The majority of these witnesses indicated their willingness to pay an increased price for these passes, should it be found that an increased price is necessary in order to furnish applicant company a reasonable return, but they vigorously opposed the absolute discontinuance of passes. There was no support for continuance of the token form of fare. Therefore, from this view of the testimony, the principal issue is whether or not the weekly pass should be discontinued, or whether it should be continued at an increased cost.

After a careful review of this testimony we are of the opinion that the weekly pass, as presently issued by applicant company, is of great convenience to the public and should be continued. The question, therefore, resolves itself to the issue of what is a reasonable price for this weekly pass.

The following tabulation is taken from studies presented by representatives of the City of Los Angeles and the Commission staff, respectively:

Estimated Results of Operation at
Alternate Proposed Fares

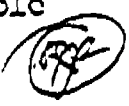
<u>Comm. Engineer</u>	<u>Total Oper. Revenue</u>	<u>Total Oper. Expenses</u>	<u>Net Oper. Revenue (before taxes)</u>
(Proposed fare of 10¢ cash & \$1.75)	\$26,551,400	\$24,587,900	\$1,963,500
	(Rate base \$27,003,000 - Rate of return 4.9%)		
<u>City of L. A.</u>			
(Proposed fare of 10¢ cash & \$1.70 pass)	\$26,852,000	24,843,000	2,009,000
	(Rate base \$21,257,000 - Rate of return 6.38%)		

An examination of the above table discloses that the estimate of the Commission engineer is based on a proposed fare of 10 cents cash and \$1.75 pass while the estimate of the City of Los Angeles is based upon a proposed fare of 10 cents cash and \$1.70 pass. The representative of the City of Los Angeles, when questioned as to his opinion as to the probable results of operation to be achieved by use of a 10-cent fare and \$1.75 pass stated that there would be practically no difference between that combination and the results of operation to be achieved under applicant's proposed fares with no passes.

Therefore, we conclude from all of the testimony presented in this matter, that the showing of applicant company has justified an increase in its fares. We further conclude from this record that the results of operations which would be obtained through the application of a 10-cent fare in combination with a \$1.75 pass would not be unreasonable.

In an amendment to its application, applicant requests authority to effect certain accounting entries as set out in Exhibits B and C attached to the amended application. These entries are proposed in order to distribute, over a period of sixty months, the cost of certain service changes, rather than to charge this cost all to the year in which it occurred. The service changes came about

due to the abandonment of rail operations on certain portions of the W, 9, and 5 rail lines and the substitution therefor of motor coach operations (Decision 41295, dated 3/9/48, on Applications 28924 and 19179-75th Supplemental; also, Decision 41633, dated 5/25/48, on Application 29104.)

Applicant also requests authority to set up a suspense account for the tax savings resulting from these losses and expenses and to amortize this tax savings over the same period as the loss and expense items are amortized. These requests appear reasonable except that the \$193,500 which applicant proposes to charge to Account 413, Other Current Assets - Suspense, should be included under Account 419, Retirements. The several entries are approved for accounting purposes only. 

Upon this record we find:

- (1) That operating under the present fare structure, applicant's revenue is not sufficient to defray the cost of providing the service and allow a reasonable return on the used and useful property devoted to the service.
- (2) That the fare changes authorized in the following order offer the most equitable plan of adjusting applicant's fare structure.
- (3) That the fare structure authorized in the following order should provide a net operating income sufficient to enable applicant to pay its operating expenses and taxes, to meet its obligations, to improve its service and maintain its credit.
- (4) That the fare changes authorized in the following order have been justified on this record.

O R D E R

Application as above entitled having been filed, a public hearing having been held thereon, the matter having been submitted, the Commission being fully advised in the premises, and good cause appearing,

IT IS ORDERED, as follows:

- I - That the Los Angeles Transit Lines be, and it hereby is, authorized to adjust and increase its fares in the following particulars, on one (1) day's notice to the public and to the Commission:
- (1) Eliminate and discontinue all token fares.
 - (2) Increase the price of the present \$1.50 weekly pass to \$1.75.
- II- That the sale of tokens shall be discontinued as of the effective date of this order, but tokens shall be honored for transportation for a period of two (2) days thereafter.
- For a period of ten (10) days after the effective date of this order, conductors and operators of Los Angeles Transit Lines shall redeem for cash, at the rate of 8 1/3 cents computed to the nearest cent, tokens presented to them in numbers not exceeding 24. Thereafter, the company shall redeem for cash all tokens presented at its office.
- III- That applicant be, and it hereby is, authorized to effect the accounting entries as set out in Exhibits B and C attached to Amended Application No. 29448, modified as indicated in the foregoing opinion.

- IV - Retain all other rates, fares, rules and regulations as are presently in effect.
- V - That the authority herein granted shall expire unless exercised within ninety (90) days from the effective date of this order.
- VI - That in all other respects this application is denied.

The effective date of this order shall be November 19, 1948.

Dated at San Francisco, California, this 3rd day of November, 1948.

R. E. International
James F. Calmes
Frank J. Farrell
Harold P. Hall
Kenneth F. Foster
Commissioners