

Decision No. 42333

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SUNSET STAGES, a corporation, for an)
 order or orders granting permission)
 to increase, adjust, and place into) Application No. 29644
 effect certain fares for the transpor-)
 tation of passengers on its lines.)

Ratzer & Bridge by Collamer A. Bridge, for applicant;
Clifford Maurice for Sunset Stages.

O P I N I O N

Sunset Stages, a California corporation, requests authority herein to increase its present intrazone fare from 7 cents to 10 cents, and to eliminate the present 40-cent round trip ticket.

Applicant operates as a passenger stage corporation between the cities of Inglewood, Hawthorne, Manhattan Beach, Hermosa Beach and Redondo Beach. The territory served is divided into five fare zones with interzone fares based on a charge of 5 cents for each zone travelled. Applicant's proposal would increase the minimum fare to 10 cents and eliminate the present round trip fare applicable to the five zone ride.

A public hearing was held before Examiner Syphers, at Los Angeles, on October 23, 1948, at which time evidence was adduced and the matter submitted.

Testimony presented by the executive vice-president of applicant company indicated that, during the year from July 1, 1947, to June 30, 1948, the operations resulted in a loss of \$13,812.71. This loss was attributable to increased expenses and to loss of passengers due to a new municipal bus line commencing operations in the area. The testimony further indicated that, effective October 1, 1948, insurance costs increased by 50%; in July of 1948 tire prices increased about 5%; on July 1, 1948, wages of drivers were increased 5 cents per hour; and other costs have likewise become greater.

Furthermore, it has become necessary for applicant company to make arrangements for a new terminal, since the City of Hermosa Beach has requested applicant to vacate its present terminal due to the residential nature of the neighborhood. Exhibit 2 consists of photostatic copies of escrow instructions, indicating that applicant is committed to the purchase of land for the construction of a new terminal.

Applicant's testimony further indicated that the future operations under present fares would result in a loss.

Testimony was presented by an engineer of the staff of the Public Utilities Commission. An analysis of this testimony, which is contained in Exhibit 3, indicates that the estimated results of operations for the year ending October 31, 1949, under present fares, would result in an operating ratio of 98.6% before provision for income taxes and 99.0% after provision for income tax. While this testimony is somewhat contrary to that presented by applicant, in that applicant estimated a loss would ensue if operations were conducted under the present fares, still it indicates that under present fares the operations would not provide applicant with net revenue sufficient to meet its operating expenses and maintain its credit. Accordingly, we conclude, and hereby find, that applicant is entitled to some increase in its fares.

The Commission engineer also presented estimates as to the results of operations for the period ending October 31, 1949, under the proposed fares, and under a suggested alternate fare. The following table is compiled from the testimony of applicant and the Commission engineer:

	<u>Applicant</u>		
	<u>Present Fares</u> (July 1, 1947 to June 30, 1948)	<u>(July 1, 1948 to June 30, 1949)</u>	<u>Proposed Fares</u> (July 1, 1948 to June 30, 1949)
Total Oper. Revenue	\$292,873.12	\$290,472.00	\$326,705.65
Total Oper. Expenses	308,312.13	324,443.95	324,443.95
Net Oper. Revenue	<u>(15,439.01)</u>	<u>(13,972.95)</u>	2,262.70
Less Income Taxes			565.13
Net Income			1,696.27
Operating Ratio:			
Before Income Taxes			99.3%
After Income Taxes			99.5%
<u>(Red Figure)</u>			

Commission Engineer

(November 1, 1948 to October 30, 1949)

	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Alternate Proposal*</u>
Total Oper. Revenue	\$296,980	\$331,560	\$305,880
Net Oper. Expenses	292,920	293,350	293,030
Net Oper. Revenue	4,060	38,210	12,850
Less Income Taxes	960	13,360	3,190
Net Income	3,100	24,850	9,660
Operating Ratio:			
Before Income Taxes	98.6	88.5	95.8
After Income Taxes	99.0	92.5	96.8

*Alternate fare structure is the same as the fare structure proposed by applicant that tokens sold on the basis of 3 for 25 cents could be used in lieu of the ten cent cash fare.

From the above table it will be seen that, under the proposed fares, according to the estimates of applicant, the operations for the period ending June 30, 1949, will result in an operating ratio of 99.3% before provision for income taxes and 99.5% after provision for income taxes. Under the estimate of the Commission

engineer, operations under the proposed fares for the year ending October 31, 1949 would result in an operating ratio of 88.5% before provision for income taxes and 92.5%, after provision for income taxes. Under such a striking disparity between these two estimates, it becomes necessary to analyze the points of difference.

It will be noted that the estimated revenue under fares proposed by applicant amounts to \$326,706 in round figures, whereas the estimate of the Commission engineer amounts to \$331,560, or a difference of \$4,854.

The applicant's method of estimating revenues for the year ending June 30, 1949, was to take the number of passengers for the preceding 12 months and allow a depreciation of 5% as a result of the proposed rate increases. The proposed fares were then applied to the resulting estimated number of passengers and the anticipated revenue was obtained. It should be pointed out that the revenue figures submitted by applicant for the year ending June 30, 1949, included only passenger revenue. No allowance has been made for any other revenue. In the year ending June 30, 1948, the miscellaneous revenue amounted to \$2,402.15. Also, it is noted that the figures submitted by the Commission engineer contained an allowance of \$2,400 for other revenue; therefore, taking this into account, we find that the estimates of revenue are only \$2,454 apart.

Concerning the forecast of operating expenses, the applicant has estimated, in round figures, an amount of \$324,444, while the Commission engineer has estimated \$293,350. The difference of approximately \$31,000 is to be found, principally, in the administrative and general expenses. Applicant has allowed \$12,000 more for the salaries of general officers than has the Commission engineer, likewise, the office salaries shown by applicant are approximately \$1,600 more than the estimate of the engineer, and the law expense is approximately \$2,000 more than the engineer's estimate. Other

items of variance include the cost of insurance, and the cost of operating taxes and licenses. Basically, these differences in estimates of expenses arise from the fact that applicant has used the actual amounts it desires to pay whereas the Commission engineer has used amounts which are comparable to those found in the operations of other similar utilities.

From a consideration of this evidence we find that the evidence herein does not justify the institution of the fares as proposed by applicant. However, we further find that applicant is entitled to some relief.

An alternate fare structure permitting the use of a token sold on the basis of 3 for 25 cents in lieu of the 10 cent cash fare was presented by the Commission engineer and the estimated results of operation under this fare structure set out in the foregoing table. Under this proposal the operating ratio was estimated to be 95.8% before provision for income taxes and 96.8% after provision for income taxes. We hereby find that this fare structure would provide applicant with sufficient revenue to pay its operating expense and taxes and provide a reasonable return to the stockholders. This fare structure has been justified in this record and the fares set out therein will be authorized.

ORDER

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 that Sunset Stages be, and it hereby is, authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the following changes in its fare structure:

- (1) increase the present 7¢ intrazone fare to 10¢. This minimum fare to be applicable to travel within any two contiguous zones;
- (2) establish tokens to be sold 3 for 25¢, each token to be acceptable in lieu of a 10¢ cash fare;
- (3) eliminate the present 40¢ round-trip ticket.

IT IS FURTHER ORDERED that in all other respects the application is denied.

IT IS FURTHER ORDERED that the authority herein granted shall expire except to the extent that the rates and charges published pursuant to this authority are filed and made effective within sixty (60) days from the effective date of this order.

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

Dated at San Francisco, California, this 21st day of December, 1948.

R. J. [Signature]
Justice F. [Signature]
[Signature]
Harold P. [Signature]
[Signature]
 COMMISSIONERS