Decision No. 42422

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Santa Fe Transportation Company, a California corporation, for authority to increase passenger fares.	Application No. 29599
and	
Related Applications of West Coast Bus lines, Ltd., Pacific Greyhound Lines, Peerless Stages, Inc., Gibson Lines, and Interstate Transit Lines, for authority to increase passenger fares.	Applications Nos. 29605, 29608, 29626, 29655 and 29677.

Appearances

J. M. Souby, Jr., for Santa Fe Transportation Company; Allan P. Matthew, Gerald H. Trautman and Douglas Brookman, for Pacific Greyhound Lines; John F. Balaam, for Peerless Stages, Inc.; Reginald L. Vaughan and Robert E. Gocke, for Gibson Lines; Glanz & Russell by Arthur Glanz, for West Coast Bus Lines, Ltd.; Edward C. Renwick, for Interstate Transit Lines; A. J. Kirk and Wallace L. Ware, for Airline Bus Company; C. W. White, City Attorney, for City of Hayward; Arthur Carden, City Attorney, for City of San Leandro; and Mrs. Helen Negrin, in propia persona.

INTERIM OPINION

Applicants are passenger stage corporations engaged in the transportation of passengers within California.[1] By these applications, as amended, they seek authority to increase their intrastate passenger fares.

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1 With the exception of Peerless Stages, Inc. and Gibson Lines, applicants also operate via interstate routes between points in California and points in other states.

Public hearing of the applications was had on a common record at San Francisco on December 6, 7 and 20, 1948. On the latter date, the hearing was continued to February 2, 1949, for receipt of additional evidence. At the December 7 hearing, applicants joined in a motion for an interim increase pending final disposition of the applications. This opinion deals with the interim proposal.

Under the permanent increases proposed, all applicants except Pacific Greyhound Lines would increase one-way fares in accordance with a proposed scale of mileage rates. Greyhound would apply the mileage scale in question to one-way fares for distances of 200 miles and under but for distances over 200 miles it would increase the existing one-way fares by 10 per cent. Round-trip fares would be computed on the basis of 180 per cent of the increased one-way fares. The bases for the existing and proposed one-way and round-trip fares are shown in Appendix "A" hereof. In addition, Peerless Stages, Inc. would increase monthly and cancel family commutation fares and Gibson Lines would increase family and cancel monthly commutation fares. The other applicants maintaining such fares propose no change therein. It is also proposed to retain any existing fares that are on a higher level than results under the proposed bases and to deviate from the proposed fares when necessary to meet lower fares of competing lines.

In regard to the interim increase, applicants urged the Commission to authorize interim relief to the full extent of the increases in fares for all distances that are permanently sought in these applications. An alternate interim proposal was also submitted in behalf of Greyhound. Counsel for the company requested, in the event the Commission deemed the proposed interim increase improper for Greyhound, that consideration be given to limiting said increase to the company's fares for distances of 200 miles and under.

Applicants allege that they have experienced substantial increases in operating expenses, particularly in recent years; that they are faced in the immediate future with additional increases in wages, materials and supplies; that the greater expenses coupled with a steady drop in the volume of traffic since the war years have rendered present revenues inadequate; and that the proposed interim increase is necessary if applicants are to continue to provide adequate service.

Evidence was offered through officers of each applicant, and by a transportation research engineer and a senior accountant from the Commission's Transportation Department and Department of Finance and Accounts, respectively. The witnesses submitted and explained various exhibits generally consisting of balance sheets, operating statements, other operating statistics, and estimates and calculations relative to future results of operations. The evidence offered in connection with each applicant is summarized below. The operating data are based on the record as made thus far.

Santa Fe Transportation Company

The testimony shows that applicant's fares have not been increased since operations were commenced in 1938 under fares equalling 1.5 cents per passenger-mile. It also shows that the existing fare structure is generally lower than that in 1938 by reason of subsequent reductions. Witnesses for applicant pointed out that the aforesaid 1.5 cents basis was predicated on an estimated cost of 20.5 cents per bus-mile. In 1939, the first full year of operation, the cost was 23.4 cents per bus-mile. Since that time, such costs have risen to more than 32.7 cents in 1948. On the other hand, they asserted, the present fare structure is producing revenue at the rate of less than 1.4 cents per passenger-mile. The witnesses also stated that applicant is faced with further advances in wages and other operating costs in the near future.

The following operating data are taken from exhibits of record:

	Applicant's Witness		Commission Engineer
	Nine Months Ending Sept. 30, 1948	Estimated Year 1949 Under Present Fares	Estimated Year 1949 Under Present Fares
Revenue	$1,509,533	$2,021,688	$2,114,380
Expenses	1,711,720	2,430,336	2,624,700
Net Operating Revenue	(202,187)	(408,648)	(510,320)
Operating Ratio	113.4	120.2	124.1

(______) = Red Figure

It was asserted by witnesses for applicant that the operating loss for the full year 1948 would exceed $236,500. According to exhibits of record, the operating loss in 1947 amounted to $138,000.

The difference in the estimates for 1949 results principally from methods used in allocating intrastate and interstate revenues and expenses. Applicant's witness allocated intrastate expenses on the basis of the ratio of intrastate revenue to total revenue. On the other hand, the Commission engineer undertook studies of traffic trends, including movement by mileage blocks, and of operations in connection with the operating expenses. This method appears to give more accurate effect to variable factors involved in the allocations.

Pacific Greyhound Lines

The testimony of witnesses for applicant shows that operating expenses have increased substantially during the past several years. The record shows that bus-mile costs have advanced from 20.2 cents in 1938 to 30.46 cents in 1948. The record also shows that the volume of traffic has declined substantially from the peak reached during the war. A witness for applicant pointed out that load factors of 80 per cent were common during the war whereas the load factor at the present time is about 60 per cent. The witness also pointed out that the load factor in the years immediately prior to the war ranged from 51 to 54 per cent. He asserted that the company will be fortunate if the postwar load factor can be held at 55 to 58 per cent. The witness also testified that applicant is now confronted with further substantial increases in wages. He said that under negotiations completed in December, 1948, wages of drivers and station personnel would be increased about 10 per cent retroactive to October 23, 1948. Related increases, he said, would have to be made in salaries of other employees. From the record it appears that the wage increases applicable to intrastate traffic would amount to about $850,000 per year.

The following operating data are derived from exhibits submitted by a witness for applicant:

	(1)Estimated Year 1948	(1)Estimated Year 1949 Under Present Fares
Revenue	$18,552,551	$18,552,551
Expenses	18,140,943	19,830,240
Net Operating Revenue	411,608	(1,277,689)
Income Taxes	156,411	
Net Income	255,197	
Operating Ratio Before Taxes	97.78	106.89

(________) = Red Figure

(1) The figures shown above do not include revenues and expenses for the San Francisco-Marin County commutation service, which, it was alleged, involves a substantial operating loss.

The estimated operating result for 1948 was prepared prior to completion of the wage negotiations and does not include the increase in wages for the period October 23 to December 31, 1948. The amount of the annual wage increase is included in the figures for 1949.

The witness also segregated the estimated operating result for 1948 into revenues and expenses for traffic transported for distances of 200 miles and under and for distances over 200 miles. The segregation purports to show that transportation for distances of 200 miles and under is performed at a loss. The following tabulation is taken from exhibits of record:

	(2) Estimated Year 1948 All Traffic	(2) Estimated Year 1948	
		Traffic 200 Miles and Under	Traffic Over 200 Miles
Revenue	$18,552,551	$14,529,714	$4,022,837
Expenses	18,140,943	14,745,577	3,395,366
Net Operating Revenue	411,608	(215,863)	627,471
Income Taxes	156,411	(3) (82,028)	238,439
Net Income	255,197	(133,835)	389,032
Operating Ratio Before Taxes	97.78	101.49	84.40

( ) = Red Figure

(2) The figures shown above do not include revenues and expenses for the San Francisco-Marin County commutation service, which, it was alleged, involves a substantial operating loss.

(3) This amount is that by which the deficit on traffic for 200 miles and under reduced the total income tax otherwise applicable.

These figures likewise do not include the effect of the wage increase accruing for the period October 23 to December 31, 1948.

It was asserted by witnesses for applicant that this is the first application for a general increase in fares ever filed with this Commission by the company, that the existing bus fare structure is the lowest that has obtained at any time in California, and that it is also the lowest fare structure in the nation.

Peerless Stages, Inc.

Applicant's revenue needs were last considered in Decision No. 40859 of October 28, 1947, in Application No. 28551, when an increase in fares averaging about 7 per cent was authorized. A witness for applicant testified that revenues had again become inadequate due to further increases in the cost of materials and supplies. In addition, he said, applicant is confronted with a further increase of about 10 per cent in drivers' wages retroactive to December 1, 1948. The following operating data are summarized from exhibits of record:

	Applicant's Witness Estimated Year 1949 Under Present Fares	Commission Engineer Estimated Year 1949 Under Present Fares
Revenue	$664,550	$660,400
Expenses	665,150	655,700
Net Operating Revenue	(600)	4,700
Income Taxes	--	600
Net Income	(600)	4,100
Operating Ratio Before Taxes	100.09	99.3
Rate of Return	- %	0.9%

In view of the slight difference in these estimates, a discussion wherein the witnesses differed in their treatment of several expense items does not appear to be necessary.

Gibson Lines

The level of applicant's fares was last considered in Decision No. 41077 of December 22, 1947, in Application No. 28574, when an increase of about 20 per cent in long-haul fares was authorized with relatively minor adjustments in fares for the short hauls.

Witnesses for applicant testified that operating expenses have increased substantially since January, 1948, and that the margin between revenues and expenses had become meager. The witnesses also asserted that applicant is now confronted with an increase of at least 6 per cent in drivers' wages retroactive to November 16, 1948. The operating results shown below are summarized from exhibits of record:

	Applicant's Witness Estimated Year 1948	Commission Engineer Estimated Year 1949 under # Present Fares
Revenue	$828,048	$878,690
Expenses	809,918	861,524
Net Operating Revenue	18,130	17,166
Income Taxes	4,563	4,298
Net Income	13,567	12,868
Operating Ratio Before Taxes	97.80	98.05
Rate of Return	6.03%	4.39%

Includes wage increase for drivers.

It was explained by a witness for applicant that the net income shown for 1948 is attributable to drastic operating economies. Commencing in August, 1948, it was alleged, certain maintenance had been deferred, service shop, garage and depot personnel had been reduced, and supervisory personnel had been maintained at a minimum. It was urged, however, that these are unusually drastic measures taken to reduce heavy losses and that such economies cannot be long maintained without impairing service. According to testimony of record, these economies were made in view of operating losses of $90,342 and $47,926 experienced in the periods October 1, 1946 to September 30, 1947, and October 1, 1947 to September 30, 1948, respectively.

A senior accountant from the Commission's Department of Finance and Accounts submitted an exhibit showing applicant's balance sheet, operating property less depreciation, and accounts receivable and payable as of June 30 and September 30, 1948, and a comparison of revenues, expenses and net income for the years 1941 to 1947, inclusive, and for the first nine months of 1948. These figures were in substantial agreement with applicant's records.

West Coast Bus Lines, Ltd.

Applicant is primarily engaged in interstate operations between San Francisco and Seattle, Washington. Its intrastate service between San Francisco and the California-Oregon State Line and certain intermediate points was inaugurated on May 10, 1948. With rare exceptions, only through schedules are operated and both interstate and intrastate passengers are handled in the same equipment.

A witness for applicant submitted various operating data, including an exhibit showing the operating result for the over-all service for the first six months of 1948. It was indicated that no segregation of intrastate expenses is maintained in applicant's records. The exhibit shows that the over-all operations were conducted at a loss of $51,923. The operating ratio was 115.4.

A Commission engineer, however, submitted a study of intrastate operations. He estimated that on the basis of present fares intrastate revenues and expenses for the year 1949 would amount to $34,975 and $48,695, respectively, and that the operating loss would amount to $13,720. The operating ratio would be 139.2.

Interstate Transit Lines

Applicant likewise operates interstate and intrastate services. Both services are performed with the equipment operating in through interstate schedules. According to a witness for applicant, because of restricted operative rights the intrastate service is confined to traffic from, to, or within the sparsely settled desert territory situated between San Bernardino and the California-Nevada State Line.

Witnesses for applicant submitted exhibits showing various operating statistics and other data. They show estimated intrastate revenues and expenses for the first nine months of 1948 amounting to $38,439 and $38,648, respectively, or a loss of $209. It was asserted that the estimates did not include the effect of a recently negotiated 10 per cent wage increase granted retroactive to September 1, 1948.

General

The witnesses for applicants asserted that operations had been reviewed and that such economies as would not impair the service had been made.

Counsel for applicants urged that the adverse financial position facing applicants in the immediate future warrants the granting of the proposed interim increase. They asserted that unless the increase is authorized applicants will be required to meet, until final disposition of the applications, substantial increases in wages and other operating expenses without offsetting revenues. The large cash outlays involved in these expenses, they said, can never be recovered. It was asserted by counsel that the carriers are in no position to assume such a burden at this time.

Counsel for applicants also urged that the Commission give due consideration to the competitive situation in dealing with the motion for an interim increase. It was pointed out that the larger carriers operate between many of the points served by the other applicants. Pacific Greyhound Lines in particular, it was said, competes with all other applicants at a substantial number of points on their routes. It was contended that in view of this applicants cannot maintain higher fares than their competitors without serious loss of traffic at such points. The parity of rates heretofore generally existing, it was said, had been disrupted through increased fares recently authorized for some bus lines. Counsel urged that any interim increase authorized herein that is not designed to restore parity of fares would be largely meaningless for most of the applicants.

The granting of the motion was supported by counsel for Orange Belt Stages.[2] He asserted that the need for parity of fares was well illustrated by the situation in which his client finds itself. This Commission, he said, recently authorized Orange Belt Stages to increase its fares (Decision No. 41954 of August 17, 1948, in Application No. 29379) upon a showing that operations were being conducted at a substantial loss. His client, he asserted, had not been able to establish the authorized increase in its entirety because it is in direct competition with Santa Fe Transportation Company between Hanford and Porterville. Counsel said that under the authorized increase Orange Belt's fares in that territory would be on a higher level than Santa Fe's existing fares and serious loss of traffic would result if Orange Belt attempted to maintain the increased fares. As the matter now stands, he claimed, Orange Belt's operations still do not return out-of-pocket expenses despite the Commission's action designed to place the carrier on a compensatory basis.

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2. Orange Belt Stages is a passenger stage corporation operating between points in the southern San Joaquin Valley and also between Hanford and King City and between Bakersfield and Paso Robles and intermediate points.

No one opposed the granting of an increase on an interim basis. The record shows that timely notice of the hearing of the applications involved herein was given through notices sent by the Commission's secretary to persons believed to be interested, and through posting of printed announcements in applicants' vehicles.

Conclusions

The record shows that applicants' revenues are insufficient to meet increased expenses and provide a safe margin between revenues and expenses. In view of this and of the fact that a substantial period of time will be required to complete the record, it appears that some interim increase is necessary. The record as made thus far, however, is not convincing that an increase as great as that sought in both the original and alternate proposals is proper.

It appears from the record that reasonable recognition of applicants' immediate revenue needs would be afforded by increasing the one-way fares for 50 miles and under to the basis of 2 cents per mile with grading of the fares so increased into the existing $3.00 fare for 200 miles in order to avoid departures from the provisions of Section 24 (a) of the Public Utilities Act, establishment of round-trip fares on the basis of 180 per cent of the increased one-way fares authorized herein, and increase of the minimum fare from 10 to 15 cents. Proposed changes in certain commutation fares and additional charges to compensate for bridge tolls should not be authorized at this time.

The aforesaid interim increase would not offset all operating losses because of the poor position of some of the applicants. It is clear that an interim increase designed to cover the deficits of all applicants would result in excessive earnings for some of them. According to our estimates, on an annual basis the interim increase hereinafter authorized would benefit Santa Fe Transportation Company to the extent of reducing its annual deficit from $510,320 to $261,580. Pacific Greyhound Lines would have an operating ratio of 96.0 and a rate of return of about 7.0 per cent.[3] For the other applicants, it is not possible reasonably to estimate the additional revenue because of lack of sufficient traffic and other data in the record at this time. However, careful consideration of other factors involved indicates that the interim increase would provide the other applicants with only a moderate amount of additional revenue and that excessive earnings would not result. By reason of prior increases, the existing fares of both Peerless Stages, Inc. and Gibson Lines for distances of 50 miles or less are already on or slightly below the level authorized herein. For distances over 50 miles, many of the existing fares are slightly above such level. Gibson Lines expects that the parity of fares resulting under the interim increase will enable it to regain some traffic lost to a competitor by reason of a drivers' strike and of attempting to maintain fares higher than those of the competitor. In any event, the record shows that were Peerless and Gibson granted in full the much greater increase sought on a permanent basis their rates of return would not exceed 6.7 per cent and 7.33 per cent,

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3 The record does not at this time contain the rate base for this applicant. The rate of return shown was estimated from the operating ratio by use of a formula set forth in an exhibit submitted by a transportation research engineer from the Commission's staff entitled "Study of Operating Ratio as a Measure of Rate of Return of Passenger Stage Operations" (Exhibit No. PGL-29). The formula was developed from a study of the operations of all passenger stage corporations reporting to this Commission. If the operating loss on the San Francisco-Marin County commutation service were given effect in the above estimate, the rate of return would be approximately 4 per cent.

respectively. The full increase on which these returns are based is considerably more than the two carriers can realize under the interim increase authorized herein. Moreover, the record indicates that of the additional revenue accruing to Gibson, a substantial proportion would be necessary for the purpose of eliminating continuance of operations on the basis of deferred maintenance. With respect to West Coast Bus Lines, Ltd., the record shows that its intrastate operations in 1949 under present fares would show an estimated loss of $13,720 or an operating ratio of 139.2. If this carrier were granted the full increase sought on a permanent basis, operations would still show a loss of $5,910 or an operating ratio of 113.7. In regard to Interstate Transit Lines, estimates of record show that its intrastate operations showed a loss of $209 for the first nine months of 1948. The record also shows that, under negotiations recently concluded, drivers' wages are to be increased 10 per cent retroactive to September 1, 1948, and that the effect thereof was not included in the September expenses. If Interstate were granted the full increase sought on a permanent basis, annual intrastate revenues would be increased by an estimated $13,727. It appears that a substantial proportion of this additional revenue would be offset by the aforesaid wage increase.

Upon consideration of all of the facts and circumstances of record we are of the opinion and hereby find that an increase in fares to the extent indicated above has been justified on an interim basis and that in all other respects the motions of applicants have not been justified.

INTERIM ORDER

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that pending further order of this Commission applicants be and they are hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, increased passenger fares as follows:

1. Increase one-way passenger fares for distances of 50 miles and under to the basis of two (2) cents per passenger-mile.

2. Increase one-way passenger fares for distances over 50 miles but not over 200 miles to the following bases:

(a) For distances over 50 miles but not over 100 miles, the fare authorized herein for 50 miles plus 1-1/3 cents per mile for the distance over 50 miles.

(b) For distances over 100 miles but not over 150 miles, the fare authorized herein for 100 miles plus 1-1/3 cents per mile for the distance over 100 miles.

(c) For distances over 150 miles but not over 200 miles, the fare authorized herein for 150 miles plus 1-1/3 cents per mile for the distance over 150 miles, except that the fare so computed for 200 miles shall not exceed $3.00.

3. Increase round-trip passenger fares on the basis of 180 per cent of the increased one-way passenger fares authorized herein.

4. Increase minimum passenger fare from 10 cents to 15 cents.

5. No change shall be made in any other existing rates, fares, rules or regulations.

6. Where the increased fares authorized herein end in other than "0" or "5", a sufficient amount shall be added to make the resulting fare end in "0" or "5".

IT IS HEREBY FURTHER ORDERED that to the extent departure from the terms and rules of General Order No. 79 is required to accomplish publication of the increases herein authorized, authority for such departure be and it is hereby granted.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless the fares herein authorized are filed and made effective within thirty (30) days from the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects applicants' motions for an interim increase be and they are hereby denied.

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

Dated at San Francisco, California, this 12th day of January, 1949.

Commissioners

APPENDIX "A"

Statement Showing Bases for Constructing One-way and Round-trip Passenger Fares as Proposed by Applicants and the Basis Generally Obtaining for the Existing Fares.

Distance	#Existing General Basis	Proposed Basis Except Greyhound	Proposed Basis Greyhound
		One-way Fares (Rates in cents per mile)	
0 - 50	1.5	2.0	Same as other applicants.
51 - 100	1.5	Fare for 50 miles plus 1.9 cents per mile for distance over 50 miles.	Same as other applicants.
101 - 150	1.5	Fare for 100 miles plus 1.8 cents per mile for distance over 100 miles.	Same as other applicants.
151 - 200	1.5	Fare for 150 miles plus 1.7 cents per mile for distance over 150 miles.	Same as other applicants, except maximum increases provided for grading into fares in next mileage block.
201 - 250	1.5	Fare for 200 miles plus 1.6 cents per mile for distance over 200 miles.	10 per cent above existing fares or 1.65 cents per mile.
251 - 300	1.5	Fare for 250 miles plus 1.5 cents per mile for distance over 250 miles.	10 per cent above existing fares or 1.65 cents per mile.
301 - 350	1.4	Fare for 300 miles plus 1.4 cents per mile for distance over 300 miles.	10 per cent above existing fares or 1.54 cents per mile.
351 - 400	1.3	Fare for 350 miles plus 1.3 cents per mile for distance over 350 miles.	10 per cent above existing fares or 1.43 cents per mile.
Over 400	1.25	Fare for 400 miles plus 1.25 cents per mile for distance over 400 miles.	10 per cent above existing fares or 1.375 cents per mile.
Round-trip Fares	180 per cent of existing one-way fares.	180 per cent of proposed one-way fares.	180 per cent of proposed one-way fares.
Minimum Fare	10 cents.	15 cents.	15 cents.

#By reason of increases heretofore authorized, the existing fares of Peerless Stages, Inc. and Gibson Lines are on higher levels than shown in this column. (See Decision No. 40859 of October 28, 1947, in Application No. 28551 of Peerless Stages, Inc., and Decision No. 41077 of December 22, 1947, in Application No.28574 of Gibson Lines.)

END OF APPENDIX