

Decision No. 42434

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
EVELYN M. KNAPP and JOHN P. DEMETER,)
co-partners doing business as) Application No. 30532
PENINSULA TRANSIT LINES, for authority)
to increase rates.)

Lorenz Costello for applicants.

T. A. Hopkins for Transportation Department, Public Utilities
Commission of the State of California

O P I N I O N

By this application, as amended, Evelyn M. Knapp and John P. Demeter, copartners doing business as Peninsula Transit Lines, seek authority to increase and readjust their passenger fares. A public hearing was held before Examiner Bradshaw at Redwood City.

Applicants are engaged in motor coach operations in and between Palo Alto, Menlo Park, Redwood City, San Carlos and certain adjacent areas. The routes traversed are divided into two operating divisions, known as the Palo Alto Division and Redwood City Division. The first-mentioned division serves areas in Palo Alto and adjacent territory, including Menlo Park. The Redwood City Division embraces routes extending from Palo Alto to San Carlos, a cement plant near Redwood City and the community of Woodside. Except as modified by Decision No. 42934, dated June 1, 1949, in Application No. 30172, the operative rights covering the Redwood City Division were acquired from one R. F. Martin pursuant to authority conferred by Decision No. 42541, dated February 23, 1949, in Application No. 29917. Applicants began operations over this division on March 16,

1949.

The present fares applicable to the Palo Alto Division consist of a cash fare with transfer privileges of 10 cents and student fares at the rate of $7\frac{1}{2}$ cents per ride. It is proposed to increase the cash fare to 11 cents and establish a 30-ride adult commutation fare, valid for 60 days, of \$3.00. No change is contemplated in the present student fares.

The fare structure governing the Redwood City Division consists chiefly of one-way adult fares of 10 cents, one-way children's fares of 5 cents and 14-ride fares of \$1.00. Higher fares for both single and multiple rides are published between specified points and between points in different zones. In instances where the one-way adult fare is 10 cents, applicants desire to increase it to 11 cents, cancel the 5-cent children's fare as well as the 14-ride fare of \$1.00, and establish a 30-ride fare valid for 60 days of \$3.00 as well as 20-ride student fares equivalent to $7\frac{1}{2}$ cents a ride. Between Redwood City, including the cement plant and San Carlos, and Palo Alto, applicants propose to increase the present 20-cent one-way fare to 22 cents, cancel provisions authorizing a one-half fare for children as well as 14-ride tickets for \$2.00, and establish a 30-ride fare valid for 60 days of \$6.00 as well as 20-ride student fares at the rate of $7\frac{1}{2}$ cents a ride. Applicants do not propose any revision of other one-way fares which exceed 10 cents. They also seek permission to cancel various adult and school children commutation fares for other than intra-zone transportation.

Applicants allege that the sought increases and readjustments in fares are justified by reason of (1) a decline in the

number of passengers carried, (2) increased operating costs and (3) expected earnings in the immediate future. A certified public accountant, testifying on behalf of applicants, stated that during 9 of the 12 months ended June 30, 1949, applicants operated at a loss. According to their monthly income accounts, the aggregate loss during these 9 months amounted to \$3,885.85, while the net loss for the 12 months was \$322.60. The months during which revenues exceeded expenses were October, November and March. The accountant further testified that notwithstanding the increases in fares established on the Palo Alto Division in March, 1949, pursuant to Decision No. 42554, dated February 23, 1949, in Application No. 29797, the additional revenue received for the months of June, July and August, 1949, amounted to only \$188 and for the period from April to August, inclusive, 1949, amounted to \$1,201. He contended that these figures demonstrate that the relief granted in the former proceeding was insufficient.

Data were presented setting forth applicants' forecast of the operating results expected for the 12 months ending September 30, 1950. It is estimated that based upon the present fare structure revenues will amount to \$248,050, while operating expenses (including depreciation and operating taxes) will be \$258,962, resulting in a net loss of \$10,912. If the proposed fares are established, applicants anticipate that the operating results will be as follows: revenues, \$263,550; expenses, \$258.962; net income (before income taxes), \$4,588; and operating ratio, 98 per cent.

Applicants' capital structure representing bus equipment, according to their accountant, is considerably below normal, because

the equipment in service was second-hand when purchased. The witness asserted that applicants must earn a sufficient return to enable them to provide for the replacement of their present equipment; that based upon a tangible investment of about \$78,500 an 8 per cent return would be wholly inadequate; and that an operating ratio of between 90 and 95 per cent is necessary.

Applicants' manager testified that numerous requests to extend existing routes to serve new subdivisions have been received; that it will be necessary to grant some of these requests; that certain of the areas in question are scattered and sparsely settled; and that in addition to necessitating additional equipment the service to the new subdivisions will be rendered at a loss until sufficient time has elapsed to develop enough traffic to support the contemplated operations.

An engineer in the employ of the Commission's transportation department, after a study of applicants' facilities and accounting records, presented a report in which he estimated the probable results of operations under the present and proposed fares for the 12 months ending September 30, 1950. According to this report, revenues at the present fares would amount to \$247,822, as contrasted with operating expenses (including depreciation and operating taxes) of \$251,913, thus resulting in a net loss of \$4,091 and an operating ratio of 101.65 per cent. The engineer concluded that based upon the proposed fares the following operating results would be realized: revenues, \$263,701; expenses, \$252,504; net income, \$11,197; and operating ratio, 95.75 per cent.

This witness arrived at a rate base for applicants' properties of \$63,390. On this basis the income under the proposed

fare structure would be equivalent to a rate of return of 17.66 per cent, without an allowance for income taxes. He estimated that by allowing for income taxes "on a corporation basis" the net income would be \$8,328, or a return on the computed rate base of about 13 per cent. The engineer, however, recognized the rate base of \$63,390 as depressed and was of the opinion that applicants' entire fleet will have to be replaced sometime during the period between 1951 and 1953. A "normalized" rate base by treating applicants' bus equipment on the basis of having been purchased new would, according to this witness, be approximately \$93,600. On this basis the proposed fares would produce an operating ratio of 97.68 per cent and a rate of return before income taxes of 6.55 per cent.

Applicants call attention to the omission by the engineer of certain buses in computing the rate base and charges for depreciation. They assert that one of these buses is used in their operations and should have been taken into consideration in estimating operating expenses and determining an appropriate rate base. The inclusion of this bus in the engineer's study of the effect of the proposed fares would produce an operating ratio of 96.37 per cent and a rate of return before income taxes of 13.35 per cent. Under the "normalized" rate base, the operating ratio would be about 98.3 per cent and the rate of return before income taxes approximately 6.27 per cent.

The Commission's engineer presented testimony designed to indicate the probable effect of establishing certain alternate bases of fares in lieu of those proposed by applicants. He estimated that a straight 10-cent fare for adults and school children would

result in an operating loss of about \$450 for the 12 months embraced in his investigation. An 11-cent fare with commutation fares of 10 cents a ride sold in blocks of 10, according to the engineer, would result in an operating ratio of approximately 97.4 per cent, while the use of commutation tickets in blocks of 16 would produce an operating ratio of 98.1 per cent.

This witness further testified that the extensions which applicants expect to be required to make to their existing routes would not be self-supporting until sufficient time elapses to develop potential traffic. The length of time required to place these extensions on a paying basis or the out-of-pocket losses which might be incurred in the meantime was not stated.

No one opposed the granting of the application. A resident of Palo Alto, however, criticized applicants for seeking an increase in fares while at the same time failing to extend service to an area claimed to require public transportation. Applicants' manager testified that one of the proposed extensions now under consideration would provide service to the area in which this resident is interested.

In proceedings of this nature involving the fares of carriers whose operations are like those of applicants, the difficulty of forecasting future traffic trends with any degree of certainty is clearly apparent. In the instant case the record shows wide fluctuations in the monthly volume of traffic. According to applicants' accounting records, these increases and decreases in the number of passengers carried have a marked effect upon the financial results of operation. These factors require careful consideration in passing upon contemplated changes in passenger fares. However, whatever additional revenue may be necessary to enable applicants to provide prospective extensions is a matter for determination in the future, rather than in this proceeding. In

our opinion, the evidence with respect to a rate base for applicants' properties does not furnish a safe guide in determining an appropriate rate level.

It appears to be obvious from the evidence presented that applicants' present fares are inadequate under existing conditions. A straight 10-cent intra-zone fare, according to the record, would likewise be insufficient from a revenue producing standpoint. In our opinion, it is improbable that the other alternate bases of fares studied by the Commission's engineer would produce the required margin of profit to enable applicants to render adequate service. However, we are not convinced that the full measure of relief sought should be granted. Under the circumstances, applicants will be authorized to establish the increased fares, as proposed in the application, as amended, in this proceeding, with the exception that the cancellation of reduced fares for children will not be permitted in instances where present tariffs provide for one-half fares for children. Childrens' fares should be established at the rate of 6 cents where the authorized one-way adult fare is 11 cents and at the rate of 11 cents between points where the authorized one-way fare is 22 cents. No evidence has been presented which justifies a departure in this instance from the somewhat general practice of publishing childrens' fares on a lower level than for the transportation of adults. The increases in fares herein authorized are hereby found to be justified.

O R D E R

A public hearing having been had in the above-entitled proceeding and based upon the evidence received and the conclusions and findings set forth in the preceding opinion,

IT IS ORDERED:

(1) That Evelyn M. Knapp and John P. Demeter, copartners doing business as Peninsula Transit Lines, be and they are hereby authorized, on not less than 5 days' notice to the Commission and

the public, to establish increased passenger fares as follows:

(a) Palo Alto Division

One-way adult fares 11 cents

30-ride adult commutation
tickets, good for 60 days
from date of purchase. \$3.00

(b) Redwood City Division

Minimum one-way adult fares . . . 11 cents

Children's fares between
points where one-way adult
fare is 11 cents 6 cents

One-way adult fares between
points described in Item
No. 40 of present tariff 22 cents

Children's fares between
points described in Item
40 of present tariff 11 cents

30-ride adult commutation
tickets, good for 60 days
from date of purchase,
between points described
in Items Nos. 35 and 45 of
present tariff \$3.00

30-ride adult commutation
tickets, good for 30 days
from date of purchase,
between points described
in Item No. 40 of present
tariff \$6.00

20-ride school commutation
tickets between points
described in Items Nos. 35,
40, 45, 60 and 70 of present
tariff \$1.50

14-ride adult commutation
tickets between points
described in Items Nos. 35,
40, 45, 50 and 55 of present
tariff Cancel

Adult and school commutation
tickets as published in Items
Nos. 85 and 90 of present
tariff Cancel

(2) That applicants be and they are hereby directed to post a notice in a conspicuous place in each bus and ticket office for not less than 5 days before the increases in fares herein authorized become effective, stating the date on which said increases will become effective and that information concerning the amount of such increased fares between specific points may be obtained upon inquiry of applicants' drivers and agents.

(3) That the authority herein granted shall lapse unless the changes in fares authorized by this order are published, filed and become effective within 60 days after the effective date hereof.

This order shall become effective 20 days after the date hereof.

Dated at San Francisco, California, this 25th day of October, 1949.

R. E. Zimmerman
Justin J. Calmer
David A. Howell
Harold P. Hicks
James H. Potter
COMMISSIONERS