

Decision No. 45002

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 )  
PENINSULA TRANSIT LINES, for author- )  
ity to increase rates. . )

Application No. 31328

Appearances

Lorenz Costello, for applicants.  
Arnold Rumwell, City Attorney, and  
Andrew M. Spears, Deputy City  
Attorney, for City of Palo Alto,  
protestants.  
Mrs. M. Arons, interested party.  
T. A. Hopkins, Research Engineer,  
for Commission Staff.

ORIGINAL

O P I N I O N

Evelyn M. Knapp and John P. Demeter, copartners doing business as Peninsula Transit Lines, conduct a passenger service in and between Palo Alto, Menlo Park, Redwood City, San Carlos, and adjoining areas. By this application, as amended, they seek authority to establish increased fares.

Public hearings were had in Palo Alto before Examiner Lake.

Applicants' operations consist of two divisions. They are known as the Palo Alto Division and the Redwood City Division. The first mentioned comprises Palo Alto, Menlo Park and the surrounding suburban area. The other division embraces the territory from Palo Alto to San Carlos, including Redwood City and the community of Woodside.

The basic one-way adult fare for transportation within the divisions is 11 cents with a reduced commutation fare of 30 rides for \$3. Applicants seek authority to increase the one-way fare to 15 cents and the commutation fare to 16 rides for \$2. Higher fares

are maintained between certain specified points and between points in different zones. In connection with these fares applicants propose, between Redwood City and San Carlos on the one hand, and Palo Alto on the other hand, to increase the present single-ride fare of 22 cents to 26 cents and to increase the multiple-ride fare of 30 rides for \$6 to 16 rides for \$4. Between points in Zone 1 and points in Zone 5, in the Redwood City Division, authority is sought to establish a 15-cent fare in lieu of the present 10-cent fare. Reduced fares are published for students and children. No change is proposed in student fares. Children's fares are based generally upon one-half of the adult fare. Only to the extent that the adult fares are proposed to be changed are the children's fares affected.

In support of the proposed increases applicants' general manager testified that for the year 1949 and for the first six months of 1950 operations were conducted at a loss of \$6,222 and \$1,609, respectively.<sup>1</sup> The losses experienced, he said, prevailed regardless of fare increases which became effective during this period and despite the effecting of all possible economies.<sup>2</sup> They were attributable primarily to a decrease in the number of passengers handled and to increases in the cost of labor, and material and supplies.

According to exhibits and testimony of the witness the number of passengers now being handled will decrease, during the 12-month period ending June 30, 1951, approximately 12 percent in the

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<sup>1</sup> Operations in 1948 were conducted, according to the witness, at a profit of only \$1,700.

<sup>2</sup> The fare increases were effective March 21, 1949; and November 14, 1949. They were authorized by Decision No. 42554, in Application No. 29797, and Decision No. 43461, in Application No. 30532.

Palo Alto Division and 10 percent in the Redwood City Division if the present downward trend in traffic continues. Drivers' wages during this period will be increased by 5 cents per hour until December 31, 1950, and 10 cents per hour thereafter. Increases are anticipated in nearly all other expenses.

Based upon present traffic trends and anticipated expenses, the witness estimated that for the period ending June 30, 1951, the expenses would exceed the revenues by \$23,527 under the present tariff fares. The operating ratio would be 109 percent. The witness estimated that the fare adjustments herein sought would produce a net operating ratio of 93.98 percent. The estimated operating income represents a return of 28.89 percent based upon the estimated depreciated investment of \$60,069.

The general manager contended that the rate of return was of little significance in determining revenue requirements necessary to accord adequate and satisfactory service to the public. He stated that the majority of the operating equipment was purchased used and that it had been reconditioned for short-time use. Practically all of the busses, he said, will be fully depreciated in 1951 and will have to be replaced within 2 years. The witness pointed out that in operations, such as herein involved, where the net operating income is related to a rate of return on an abnormally low rate base, a small error in estimating the number of passengers and operating revenue might result in serious losses from which it would be difficult to recover. He urged that the request for fare increases be based upon a minimum operating ratio of 93 percent rather than upon the rate of return.

Two transportation engineers of the Commission's staff explained exhibits covering studies of applicants' operations. One of the studies dealt with the estimated results that would obtain under various fare structures for a 12-month period ending September 30, 1951. The other study was the result of an investigation pertaining to the adequacy of the service. It involved load standards, mileage estimates, on-time performance, condition of equipment, and other factors affecting service to the public.

In connection with the first mentioned study the witness testified that in reaching his conclusions he had estimated the decline in passenger traffic on the same basis as applicants. Except for the number of passengers estimated to be transported under single and multiple-ride fares and the revenues resulting therefrom the witness stated that his estimates would be relatively close to applicants' had they used similar periods for their test year.<sup>3</sup>

This engineer stated that because the busses were acquired as used equipment and were thus largely depreciated, the investment was relatively small for the type of operations conducted by the applicants. For these reasons, he stated, the rate of return based on the recorded investment was not a fair measure for testing the reasonableness of the rate structure. He contended that greater weight should be given to the operating ratio rather than to the rate of return. For this operation he urged that the rate of return be determined from the operating ratio related to the investment per 1,000-coach miles operated annually. This, he said, would more closely approximate a normal condition.

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<sup>3</sup> This witness also used a slightly different mileage factor and depreciation basis on one piece of equipment. Applicants included in their cost estimate some expenses which were slightly higher than believed necessary by the engineer.

The following tabulation is taken from this study:

	Under Present Fares	Under Proposed Fares	Alternate Fares (1)		
			Under Basic Fare of 15 cents or 6 tokens for 75 cents	Under Basic Fare of 15 cents or 4 tokens for 50 cents	Under Basic Fare of 13 cents
Total Operating Revenue	\$247,602	\$291,415	\$279,019	\$275,920	\$275,069
Operating Expenses	222,655	222,655	222,655	222,655	222,655
Depreciation	24,353	24,353	24,353	24,353	24,353
Operating Taxes	18,172	18,422	18,352	18,334	18,329
Total Operating Expenses	265,180	265,430	265,360	265,342	265,337
Net Operating Income Before Income Taxes	(\$17,578)	\$ 25,985	\$ 13,659	\$ 10,578	\$ 9,732
Operating Ratio	107.10%	91.08%	95.10%	96.17%	96.46%
Rate Base	\$ 51,625	\$ 51,625	\$ 51,625	\$ 51,625	\$ 51,625
Rate of Return	—	50.33%	26.46%	20.49%	18.85%
Normalized Rate of Return (2)	—	17.5%	9.5%	7.7%	6.8%

(1) Under the Alternate Fare Structure only the basic fares are different.

(2) Rate of return calculated by the staff engineer from the operating ratio related to the investment per 1,000 coach-miles operated annually.

( ) - Indicates Loss

Applicants' general manager testified that the proposed alternate fares which require the use of tokens were not practicable. He stated that his company has not had experience in the handling of tokens, that its fare boxes would have to be redesigned and his drivers furnished with new coin changers. He testified that the additional expense to institute a token fare would be approximately \$3,000.

The study of applicants' operations submitted by the other transportation engineer shows that applicants render an efficient and adequate service. The equipment is clean and inviting and the operators are courteous and considerate of the passengers. The witness testified that should passenger traffic continue to diminish

whether accentuated by fare increases or otherwise, applicants should:

- "1. Make studies to determine whether off-peak service can be reduced on any of the routes operated by combining routes where traffic does not justify the frequency of service performed.
- "2. Study the passengers' need for train connections during off-peak periods, particularly at Redwood City Depot, and if not necessary consider the possibility of establishing schedules at regular periodic intervals, i. e.: hourly or half-hourly, so that a timetable in the pocket of a passenger is not a necessity.
- "3. Provide extended service into new housing areas where it is possible to do so by re-routing existing lines with resultant minor increases in operating mileage and cost.
- "4. Carefully observe patronage of night and Sunday schedules to determine whether service reductions are in order.
- "5. Study the possibility of cutting short certain unpatronized schedules on the Woodside Route 'E' at Alameda de las Pulgas on Woodside Road, where economies can be effected by mileage reduction.
- "6. Carefully observe extra or second section trips operated during peak periods with a view toward elimination, or cancellation and substitution of a 41-passenger bus on the schedules involved."

Adoption of the proposed fares was opposed by the city councils of San Carlos and Palo Alto. Representatives of the City of San Carlos did not appear at the hearing. The protest of the city council of Palo Alto was made by resolution protesting "a straight 15-cent fare." No evidence, however, was submitted in support thereof.

A resident of Palo Alto said that she opposed the granting of applicants' request unless and until service was extended to an area claimed to require public transportation. Applicants' witness stated that requests for new routes and extensions of old routes were made with the development of new residential areas. He said that since the last fare increase one new route had been inaugurated and that consideration was being given to establishing other routes and

extensions. Because of the financial inability of his company to absorb losses inherent in newly established lines, many of the requests, he said, could not now be granted.

There is no doubt on this record that unless applicants are able to develop additional revenue their ability to continue to render adequate and efficient service to the public will be seriously jeopardized. It is clear that continued operations under the present fares can only result in further losses. It is apparent, however, that under either of the witnesses' estimates the fares proposed by applicants would be greater than necessary or reasonable. This is likewise true of the alternate fares suggested by the engineers which contemplate the use of tokens. The alternate fare of 13 cents cash, however, does not appear to be unreasonable under the circumstances developed herein.

Under these circumstances applicant will be authorized to establish the fares shown in the amended application except in connection with the proposed basic fares of 15 cents cash and the multiple-ride fares of 16 rides for \$2. In lieu thereof applicants will be authorized to establish basic fares of 13 cents cash.

Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds that the increased fares sought in this proceeding are justified to the extent hereinbefore indicated and provided by the order herein.

Applicants will be expected to review the recommendations with respect to service matters hereinabove discussed and to inform the Commission not later than December 15, 1950, what action will be taken in these matters.

O R D E R

Public hearing having been had in the above-entitled application, as amended, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that Evelyn M. Knapp and John P. Demeter, copartners, doing business as Peninsula Transit Lines, be and they are hereby authorized to establish increased and revised fares as specifically set forth in the amended application filed in this proceeding, except in connection with the proposed basic fares of 15 cents cash and the multiple-ride fares of 16 rides for \$2. In lieu thereof applicants are hereby authorized to establish basic fares of 13 cents cash.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 31328, as amended, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire ninety (90) days after the effective date of this order.

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

Dated at San Francisco, California, this 8<sup>th</sup> day of November, 1950.

R. J. Zimmerman  
Justus J. Cravener  
Robert Lawrence  
Harold Hulse  
Resurrection Pottier  
 Commissioners