

ORIGINAL

Decision No. 45885

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
	)	
CATALINA ISLAND STEAMSHIP LINE,	)	
A CORPORATION,	)	APPLICATION NO. 32317
	)	
For an Order Authorizing an Adjustment	)	
in its Passenger Fares.	)	

Appearances

Woodward M. Taylor, for applicant.

T. A. Hopkins for Transportation Engineering Staff,  
Public Utilities Commission, interested party.

O P I N I O N

Catalina Island Steamship Line is a California corporation engaged in the business of transporting persons and property by vessel as a common carrier between Avalon and The Isthmus on Santa Catalina Island and Wilmington. By its application as amended in this proceeding it seeks authority to establish increased passenger fares on less than statutory notice.

Public hearing of the matter was held before Commissioner Mitchell and Examiner Abernathy at Los Angeles on June 13, 1951.

Applicant's purposes in this proceeding are (a) to simplify its fare structure and (b) to obtain additional revenue. The present fares and those which the company proposes to put into effect are as follows:

Passenger Fares Between Wilmington and Avalon or The Isthmus \*\*

	<u>Present Fares</u>		<u>Proposed Fares</u>
Adult One-way *	\$2.26(a)	\$2.87(b)	\$2.96
Adult Round-trip *	\$3.96(a)	\$5.04(b)	-
Commutation fares, Adults and dependent children, per 10-ride		\$12.50	\$12.50

(a) Applies weekdays except Saturdays, Sundays, and specified holidays.

(b) Applies Saturdays, Sundays, and specified holidays.

\* Children's fares are one-half of adult fares.

\*\* The fares shown are exclusive of the federal transportation tax of 15 per cent.

No changes in applicant's rates for the transportation of freight are sought.

Applicant's present fare structure has been in effect since February 16, 1948. At that time the higher fares for week-end and holiday travel were established in the belief that they would result in a more uniform daily load factor and would place upon the week-end and holiday traffic a greater portion of the additional costs which the company incurs in handling such traffic.<sup>1</sup> Applicant now alleges that assessing fares on two bases has proved to be impracticable and it seeks to reestablish a single fare basis to apply uniformly throughout the week. The company's general manager and its sales promotion manager testified to the effect that the traveling public

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<sup>1</sup> The differential between week-end and other weekday fares was established following a traffic analysis by the company which showed that travel to and from Catalina Island reaches its peak on week-ends and holidays and that operating costs on the days of peak travel are approximately 45 per cent higher than on other days. (Decision No. 41154, dated January 19, 1948, in Application No. 28824.)

has reacted adversely to the present fare structure and considers that it penalizes without apparent reason travel to the island at the only time of the week that many persons can make the trip. They stated that the company's agents and the commission agents do not like the present fare structure; that the agents complain that misunderstandings occur with the public as to what fares are applicable; that errors are frequent; and that the accounting reports are complicated and doubled because of the dual basis of fares. Assertedly these several factors have exercised a detrimental effect upon the company's ticket sales.

Evidence relating to financial and other aspects of applicant's operations was submitted by the company's vice president, by its general manager, and by two certified public accountants in charge of the auditing of applicant's records. Exhibits which the witnesses introduced and explained include a balance sheet as of April 30, 1951, profit and loss statements for the years 1947 through 1950, property cost schedules, passenger and freight statistics, estimates of future operations under the fares sought herein, and various other data.

According to testimony of the vice president, the company's operations in recent years have been conducted under increasingly unfavorable circumstances. Since 1947 passenger travel to and from Catalina Island has decreased from a post-war peak of 436,000 for that year to about 300,000 in 1950. The 1950 figures, the witness believed, approximate the traffic volume that can be characterized as normal. Along with the decreases in operating revenue, the company has had to meet increases in operating costs, particularly in those for labor. The vice president submitted an exhibit to show that labor costs as established by contracts negotiated for 1951 are

now from 24 to 33 per cent higher than were the corresponding costs early in 1948 when the company last sought an adjustment in its fares. He declared that the company has made every effort to cope with the adverse combination of decreasing revenues and increasing costs; that it has "reached rock bottom in the elimination of frills and non-essential services"; and that its only alternative, if it is to continue to provide adequate service, is to increase its fares.

Financial results of applicant's operations for the past four years were reported as follows:

Table No. 1

Revenues and Expenses, 1947 through 1950  
(Amounts in thousands of dollars)

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
Operating Income	\$1,990	\$1,824	\$1,461	\$1,419
Operating Expense	<u>1,978</u>	<u>2,116</u>	<u>1,354</u>	<u>1,577</u>
Net Operating Income	\$ 12	<u>(\$ 292)</u>	\$ 107	<u>(\$ 158)</u>
Income Taxes	<u>2</u>	<u>45Cr</u>	<u>33</u>	<u>33Cr</u>
Net Income	\$ 10	<u>(\$ 247)</u>	\$ 74	<u>(\$ 125)</u>

Cr - Indicates tax credit based on prior years' tax payments.

( ) Indicates Loss.

In submitting the foregoing data applicant's vice president pointed out that for the peak year 1947 his company was able to show only a small profit and that it incurred substantial losses in 1948 and 1950. He attributed the profit for 1949 to the fact that during the winter months that year, when travel to and from Catalina Island was at its low ebb, the company experimentally operated a small motor ship "Descanso" instead of its steamers "Catalina" and "Avalon" in an effort to reduce operating costs and to promote efficiencies.

Although the operation of the "Descanso" resulted in lower costs, the experiment did not prove successful otherwise, he said, and was abandoned in favor of the larger and more stable steamers. The motorship was found to be too small to provide comfortable passage through the rough winter waters between the island and the mainland.<sup>2</sup>

Looking to the future, the witness stated that present schedules contemplate a single steamer operation throughout the year and that no plans are being made to operate a second steamer during the coming summer months as was done during the summer season of 1950. He submitted figures to show that under the present level of expenses the operation of a second steamer would not return out-of-pocket costs even though there should be no decline in traffic below that of 1950. A certain reduction in traffic should be expected as a consequence of a fare increase, he said. With the prospect of a lower volume of traffic, he was certain that operation of a second steamer would be economically unjustified. The witness testified that present plans call for one round trip daily of the "SS Catalina", with ten additional trips during the summer months to meet peak week-end and holiday traffic and that consideration is being given also to the use of "MS Descanso" during the peak period. The witness said that as a further measure the "SS Avalon" can be restored to service in about three weeks if a greater volume of traffic develops than is anticipated at present.

The testimony of the accountant witnesses was directed principally toward explanation of financial statements and supporting schedules showing estimates of future operating results under the

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Approximately 70 per cent of the passenger travel to and from Catalina Island occurs during the three summer months of the year with 30 per cent distributed throughout the remaining nine months.

sought fares. Future revenues were estimated on the assumption that, except for the effect of increased fares, the volume would remain unchanged from the 1950 level. A diminution of 16 per cent in traffic was expected to result, however, from establishment of the higher fares. Estimates of operating costs were developed on the basis of 1950 experience adjusted to reflect planned steamer schedules, reductions in personnel, and increases in wage costs and in other items of expense. It was explained that operation of the "SS Avalon" during the coming winter months is planned tentatively because it is a smaller ship than the "SS Catalina" and can be operated at lesser costs. However, the company is endeavoring to reduce the costs of its winter operations further by procuring and placing in service a ship that will be more economical to operate than the "SS Avalon". No allowance was made in the cost estimates for the operation of such a vessel, however, since it is not known as yet whether the company will be able to obtain a ship that will meet its specifications.

The rate base figures which the witnesses submitted were developed on the original costs of the property used and reflect the sinking-fund method of depreciation expense. It was asserted that an operating ratio of 90 per cent, and a rate of return of 10 per cent, would be reasonable for the company, consideration being given to the fact that it is almost wholly an amusement enterprise.<sup>3</sup> The witnesses calculated that the sought rates would provide net earnings of \$34,700 as compared with an amount of \$277,525 necessary to result in a rate of return of 10 per cent.

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According to applicant's exhibit, necessity riders account for only 2 per cent of the total passenger revenues.

Evidence relating to financial results of applicant's operations was submitted also by a transportation engineer of the Commission's staff who introduced and explained an exhibit setting forth estimates of future operations under present and proposed fares. Under his estimates the engineer differed from the witnesses of applicant in several material respects. The engineer expected a decline of 5 per cent in summer traffic as a result of changing economic conditions. He predicted that the diminution in traffic resulting from establishment of the increased fares would be 9.39 per cent instead of the figure of 16 per cent estimated by applicant. According to the engineer's calculations, should the present fares be maintained in effect throughout the ensuing year, applicant will incur operating losses ranging from \$250,000 to \$287,000, depending upon its schedules; under the proposed fares and under the steamer schedules now planned by applicant the operating results would range from a loss of about \$13,000 to a net operating income, after income taxes, of about \$5,000. The engineer believed that in order to conform to traffic demands and attain optimum results the company should operate 23 additional round-trip schedules during the summer instead of 10 as planned by applicant. He calculated that the extra trips would result in about \$28,000 in additional net revenues. Details of the results under the proposed fares as anticipated by the engineer are set out and compared with the estimates of applicant's witnesses in Table No. 2 as follows:

Table No. 2

Estimated Results from a Year's Operations Under Proposed Fares  
 Except as noted, estimates are based on steamer operation of  
 one round trip daily, plus ten additional round trips  
 as required during year to accommodate peak traffic.

(Amounts are stated in thousands of dollars)

	<u>APPLICANT</u>		<u>COMMISSION ENGINEER</u>			
	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>	<u>(2)</u>	<u>(1)(a)</u>	<u>(2)(a)</u>
Operating Revenues	\$1,526	\$1,526	\$1,546	\$1,546	\$1,594	\$1,594
Operating Expenses	<u>1,497</u>	<u>1,477</u>	<u>1,559</u>	<u>1,539</u>	<u>1,579</u>	<u>1,559</u>
Net Operating Revenues	29	49	( <u>13</u> )	7	15	35
Income Taxes	8	14	-	2	4	10
Net Operating Income	21	35	( <u>13</u> )	5	11	25
Rate Base	1,657*	2,775	853	1,275	853	1,275
Operating Ratio (Before Income Taxes)	98.1%	96.8%	100.9%	99.6%	99.1%	97.8%
(After Income Taxes)	98.6%	97.7%	100.9%	99.7%	99.3%	98.4%
Rate of Return (After Income Taxes)	1.27%	1.26%	-	.39%	1.28%	2.0%

(    ) Indicates Loss

(1) Depreciation expense computed on a straight-line basis and rate base developed on basis of depreciated value of properties.

(2) Depreciation expense computed on a sinking-fund basis and sinking-fund method followed in calculating rate base.

(a) Assumes steamer operation of one round trip daily, plus 23 additional round trips as required during year to accommodate peak traffic.

\* Assumes properties depreciated to 50 per cent of book cost.



Other witnesses who participated in this proceeding are the Mayor of the City of Avalon who submitted a resolution passed by the Avalon City Council approving the sought fares; the manager of the Avalon Chamber of Commerce who testified that that organization had considered and had approved the proposal; and an Avalon property owner who questioned the efficiency of applicant's operation in certain respects but did not oppose fare increases necessary to sustain the service.

The record herein shows clearly that operating revenues under the present fares are not sufficient to return the costs of operations, particularly as such costs have been affected by recent increases in wages. Increases in applicant's fares appear warranted.

There remains for consideration the reasonableness of applicant's proposal as it relates to the operating results to be attained thereunder. It will be noted from the data set forth in Table No. 2 above that neither applicant nor the Commission engineer in their estimates of earnings under the sought fares anticipated net operating results more favorable than that indicated by a rate of return of 2 per cent. Generally speaking, it appears that the earnings estimates of applicant's witnesses and of the Commission engineer both fall in the lower end of the scale of earnings which may be expected reasonably to result from the proposed fares. As has been indicated hereinabove, applicant's figures are based upon an anticipated volume of traffic which is 16 per cent less than that of 1950; the total reduction in traffic which was predicted by the engineer was about 14 per cent. Adopting for comparative purposes the more favorable of each of the witnesses' estimates of future traffic, it appears that applicant's gross revenues reasonably can be estimated to be as much as \$130,000 more than was shown; this figure is based on the assumption that the reduction in passenger

traffic during the coming year will be not more than the 9.39 per cent diminution factor estimated by the Commission engineer. It does not appear, however, that applicant's net revenues would be increased in proportion to the increase in gross revenues since the carrying capacity of the "SS Catalina" would tend to become a limiting factor. Applicant's figures show that with a diminution in traffic of about 11 percent the "SS Catalina" would be operated at capacity. On the basis of a capacity operation, applicant estimates that its gross revenues would be increased by \$105,000 and that its net revenues after taxes would be increased by \$52,000. The resulting operating ratio would be approximately 91 per cent before income taxes, and about 95 per cent after taxes. Corresponding rates of return as measured by applicant's rate base figures would be 3.2 per cent and 4.4 per cent, respectively, depending upon whether the rate base reflects depreciation expense computed on the straight-line or sinking-fund basis.<sup>4</sup> It is improbable that, as a practical matter, applicant can provide adequate service and operate at capacity continuously throughout the summer. Instead, it would seem that as the passenger volume approaches the capacity operation of the "SS Catalina" applicant will have to augment its service, at additional costs, either by extra trips or by the operation of other vessels.<sup>5</sup> It would seem that the maximum earnings that can be anticipated for the ensuing year will be somewhat less, or not more

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4

The rate of return after income tax as measured in relation to the engineer's rate base of \$853,000 developed on the basis of the depreciated values of the properties, would be 8.5 per cent. This rate base figure does not include any allowance for the use value of the "SS Avalon" which has been fully depreciated on the steamship company's records.

5

It is clear that operation of a second ship to take care of the excess traffic would add substantially to applicant's operating costs.

than, those which are shown above for capacity operations. At best it appears that applicant's earnings will not be sufficient to provide more than a low rate of return on the value of the properties used in its public utility operations.

Applicant has herein undertaken to justify the sought fare increases on the basis of an over-all showing which includes operating results from transportation performed at lower commutation fares and from the transportation of freight. Increases in the commutation fares were not sought for the stated reason that it is believed that the present fares are reasonable for the class of traffic involved. It was also stated that the freight rates were increased by 50 per cent early in 1948. Assertedly, they are at their maximum practical levels. The record shows that the transportation of persons at the commutation fares and the transportation of freight account for only about 7 per cent of applicant's total operating revenues. In view of the small proportion of freight and commuter traffic to applicant's total traffic and in view of the low earnings expected from the sought fares, it appears that adjustment of applicant's fares on the basis of its over-all showing is reasonable and justified.

Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the increased fares which are sought herein are justified. The application will be granted.

Applicant asked that it be allowed to make effective at the earliest possible date any increased fares which are authorized in this proceeding. It pointed out that it is entering its peak period of operations and that delay in establishing the higher fares would deprive it of much of the benefits expected from the fares

during the coming year. Accordingly, the order herein will be made effective three (3) days after the date thereof. Publication of the increased fares on one (1) day's notice will be authorized.

O R D E R

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

IT IS HEREBY ORDERED that Catalina Island Steamship Line be and it is hereby authorized to amend, on not less than one (1) day's notice to the Commission and to the public, Section 20 of its Local Passenger Tariff Cal. P.U.C. No. 2 by establishing the following fares, exclusive of federal transportation tax, in lieu of those set forth in Columns A, B, C and D of said Section 20 for transportation between Wilmington on the one hand and Avalon <sup>or</sup> ~~and~~ The Isthmus, Santa Catalina Island, on the other hand:

(130)

Authorized Fares

- One-way, full-fare ticket, limited to 90 days from date of sale stamped on ticket.....\$2.96
- One-way, half-fare ticket, limited to 90 days from date of sale stamped on ticket.....\$1.48

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 three (3) days after the date hereof.

Dated at San Francisco, California, this 26<sup>th</sup> day of June, 1951.

*R. J. Anderson*  
*Justice J. Casanova*  
*Harold P. Kels*  
*Kenneth W. Patton*  
*John W. McNeil*  
 COMMISSIONERS