

ORIGINAL

Decision No. 46576

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 INGLEWOOD CITY LINES, requesting) Application No. 32522
 authority to increase certain of its)
 rates of fare.)

Appearances

A. W. Howe and Vernon P. Spencer, for applicant.

Robert W. Russell, for the Department of Public
 Utilities and Transportation of the City
 of Los Angeles, interested party.

John Power, Glenn E. Newton and Leonard Diamond,
 for the staff of the Public Utilities
 Commission of the State of California.

O P I N I O N

Inglewood City Lines, a passenger stage corporation,
 operates an urban passenger bus service within and between the cities
 of Inglewood and Hawthorne and adjacent territory. By this applica-
 tion it seeks authority to establish increased fares. Applicant
 alleges that higher fares have been made necessary by substantial
 increases in wage rates and in other costs of operation.

A public hearing was held before Commissioner Mitchell and
 Examiner Bryant at Inglewood on December 20, 1951. The matter is
 ready for decision.

Applicant's present one-way adult fare is 10 cents. There
 are no zones or fare break points on applicant's lines. The 10-cent
 fare provides transportation between any two points on the system.
 A seven-cent fare is maintained for children and students. Applicant
 herein seeks authority to increase the one-way adult fare from 10
 cents to 12 cents. No change is proposed in the fare for children
 and students.

Evidence was offered by applicant's president, and by a transportation engineer of the Commission's staff. The president described the past and present routes and services of Inglewood City Lines, and explained certain route changes effective December 30, 1951¹. He testified that the company has maintained a continuous policy of effecting operating economies and service improvements through reroutings and rescheduling, through replacement and modernization of equipment, and through any other feasible means. Both the company president and the Commission engineer submitted operating statements showing the financial results of past operations and estimated results of the future. The company's income statements for the past five years, based upon the company records without adjustment, were submitted in evidence as follows:

TABLE I
Company Income Statements

Item	1946	1947	1948	1949	1950	12 Months Ending : : Oct. 31, 1951 :
<u>Operating Revenues</u>	\$208,471	\$254,985	\$281,480	\$257,552	\$242,549	\$247,484
<u>Operating Expenses</u>						
Operating and Maintenance	\$181,191	\$218,934	\$226,297	\$221,925	\$206,164	\$197,588
Depreciation	16,480	20,949	24,626	19,311	15,950	14,395
Amortization	418					433
Operating Taxes and Licenses	19,874	21,600	23,109	23,729	24,941	23,934
Operating Rents	4,074	579				
<u>Total Operating Expenses</u>	<u>\$222,037</u>	<u>\$262,062</u>	<u>\$274,032</u>	<u>\$264,965</u>	<u>\$247,055</u>	<u>\$236,350</u>
Net Operating Revenue	\$ <u>(13,566)</u>	\$ <u>(7,077)</u>	\$ 7,448	\$ <u>(7,413)</u>	\$ <u>(4,506)</u>	\$ 11,134
Other Income #	\$ 141	\$ <u>(327)</u>	\$ <u>(317)</u>	\$ 2,880	\$ <u>(687)</u>	\$ <u>(1,527)</u>
Net Before Income	\$ <u>(13,425)</u>	\$ <u>(7,404)</u>	\$ 7,131	\$ <u>(4,533)</u>	\$ <u>(5,193)</u>	\$ 9,607
Taxes	\$ <u>(20)</u>	-	\$ 1,540	-	-	\$ 3,414
Income Tax	\$ <u>(13,405)</u>	\$ <u>(7,404)</u>	\$ 5,591	\$ <u>(4,533)</u>	\$ <u>(5,193)</u>	\$ 6,193
Net Income						
Operating Ratio * (After Income Taxes)	106.5%	102.8%	97.9%	102.9%	101.9%	96.9%

* Calculated by Commission's staff

Nonoperating income (net)

(Loss)

¹

Authorized by Decision No. 46502, dated December 4, 1951, in Application No. 32737, (unreported).

The estimates of revenues and expenses for the year 1952 as introduced by the witnesses, are summarized for purposes of comparison in the following table:

TABLE 2 - PRESENT AND PROPOSED FARES

Estimates for Year Ending December 31, 1952

Item	Present Fares		Proposed Fares	
	#	Engineer	Applicant	Engineer
<u>Operating Revenue</u>				
Passenger		\$232,250	\$260,048	\$263,430
Other		6,100	6,000	6,100
Total Operating Revenue		<u>\$238,350</u>	<u>\$266,048</u>	<u>\$269,530</u>
<u>Operating Expenses</u>				
Maintenance		\$ 52,780	\$ 56,560	\$ 52,780
Transportation		115,310	115,168	115,310
Traffic		620	500	620
Insurance		11,960	14,159	11,960
Administration		14,050	18,890	14,050
Depreciation		16,720	17,143	16,720
Operating Taxes		24,430	25,160	25,070
Total Operating Expenses		<u>\$235,870</u>	<u>\$247,580*</u>	<u>\$236,510</u>
Net Operating Revenue				
(Before Income Tax)		\$ 2,480	\$ 18,468	\$ 33,020
Income Tax (Federal & State)		\$ 110	\$ 5,209	\$ 11,140
Net Operating Revenue (After Income Tax)		\$ 2,370	\$ 13,259	\$ 21,880
Rate Base		\$ 99,370	\$ 99,370**	\$ 99,370
Rate of Return				
(After Income Tax)		2.4%	13.3%	22.0%
Operating Ratio				
(After Income Tax)		99.0%	95.0%	91.9%

Applicant did not submit estimates under present fares.

* Items of \$2,153 for "interest" and of \$433 for "amortization of intangibles", which were included as expenses in applicant's estimate but which obviously are not proper items of operating expense, have been deducted and items below adjusted accordingly.

** Rate Base as submitted by Commission engineer. Applicant did not submit a rate base nor calculate a rate of return.

The Commission engineer also introduced estimates of operating results under several alternate fare bases. These estimates are set forth in the following table:

TABLE 3 - ALTERNATE FARES

Estimates for Year Ending December 31, 1952

Item	:Alternate : 1	:Alternate : 2	:Alternate : 3
(See explanation of alternate bases below)			
<u>Operating Revenue</u>			
Passenger	\$248,400	\$242,070	\$240,460
Other	6,100	6,100	6,100
Total Operating Revenue	<u>\$254,500</u>	<u>\$248,170</u>	<u>\$246,560</u>
<u>Operating Expenses</u>			
Maintenance	\$ 52,780	\$ 52,780	\$ 52,780
Transportation	115,310	115,310	115,310
Traffic	620	620	620
Insurance	11,960	11,960	11,960
Administration	14,050	14,050	14,050
Depreciation	16,720	16,720	16,720
Operating Taxes	24,760	24,630	24,600
Total Operating Expenses	<u>\$236,200</u>	<u>\$236,070</u>	<u>\$236,040</u>
Net Operating Revenue (Before Income Tax)	\$ 18,300	\$ 12,100	\$ 10,520
Income Tax (Federal & State)	\$ 5,300	\$ 3,260	\$ 2,750
Net Operating Revenue (After Income Tax)	\$ 13,000	\$ 8,840	\$ 7,770
Rate Base	\$ 99,370	\$ 99,370	\$ 99,370
Rate of Return (After Income Tax)	13.1%	8.9%	7.8%
Operating Ratio (After Income Tax)	94.9%	96.4%	96.8%
<u>Explanation of Alternate Fare Bases</u>			
Alternate 1 - 11 cents cash fare			
Alternate 2 - 11 cents cash fare, 10 tokens for \$1.00			
Alternate 3 - 11 cents cash fare, 5 tokens for .50			

As may be seen from the tables, it is only in connection with the results under proposed fares, set forth in Table 2, that there is any basis for direct comparison between the estimates submitted by applicant's president and those submitted by the Commission engineer. The engineer's estimate is the more favorable of the two. He forecast higher revenues and lower operating expenses.

The difference of approximately \$3,500 in the revenues is attributable almost wholly to difference in judgment of the two witnesses concerning the number of passengers to be carried during the rate year. The principal expense differences are in maintenance, insurance, and administration. The maintenance differences are due primarily to the fact that the engineer used current prices in estimating the cost of repair parts, whereas applicant's witness predicated his estimate upon a price increase of 14 percent. The variation in the insurance estimates is due principally to an item of \$1,970, included by applicant and excluded by the engineer, representing the annual premium on an insurance policy which the company carries on the life of its president. The difference of approximately \$4,800 in the estimates for administrative expenses is found principally in the amounts allowed for salaries and expenses of general officers. Differences in other items are minor and partly offsetting.

The Commission engineer developed a rate base of \$99,370. Applicant's president said that in his opinion the company should have a somewhat higher rate base. However, he did not submit any rate base data on the company's behalf, and asked that earnings

be measured by the operating ratio rather than by the annual rate of return.²

The record shows that notices of the hearing were posted in applicant's buses and terminals, and were published in a newspaper of general circulation in the area served by applicant. In addition, the Commission's secretary sent notices of the hearing to representatives of the cities and chambers of commerce throughout the area, and to other persons and organizations believed to be interested. Counsel for the Commission's staff and a representative of the Board of Public Utilities and Transportation of the City of Los Angeles assisted in development of the record. There was no other public participation in the hearing. Counsel for the Commission's staff suggested that, if possible, the 10-cent fare be preserved for regular riders through the prescription of a token fare. Applicant objected to the use of tokens. Its president stated that the company had found former token fares to be difficult and costly to administer, and generally to be unsatisfactory for a number of reasons. He said also that tokens could not again be used by the company without a complete change of all of its fare boxes.

The engineer's estimates in many respects are essentially the same as those made by the company's president. As to those

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The Commission has stated heretofore that operating ratios and rate bases are both valuable indexes of earnings, that applicants in rate proceedings should develop as much information as practicable in order that the Commission may determine properly what revenues are necessary and reasonable under the particular circumstances, and that in reaching its conclusions this Commission considers all available data, without limitation or restriction to any single formula. See Glendale City Lines, Inc. Decision No. 46147 of August 28, 1951, in Application No. 32325; and Pasadena City Lines, Inc. Decision No. 46452 of November 20, 1951, in Application No. 32320.

items in which there are material differences, hercinabove explained, applicant's estimates lack substantial supporting data. For purposes of this proceeding the engineer's figures will be adopted.

It appears that the 12-cent fare sought in this application would return revenues greater than necessary or justified on this record. The alternative fare of 11 cents would, according to the evidence, produce revenues sufficient to meet all reasonable expenses of operation and leave a net income, after state and federal taxes, of \$13,000. The rate of return, after taxes, would approximate 13 percent on the rate base as developed by the Commission engineer, and the operating ratio after taxes would be about 95 percent. For the purpose of this decision, we hereby adopt the operating results and rate base as set forth under Alternate 1 of Table 3 herein, and hereby find a rate of return of 13.1 percent on a rate base of \$99,370, when considered in relationship to an operating ratio of 94.9 percent after income taxes, to be fair and reasonable. The 11-cent fare has been justified on this record.

O R D E R

Public hearing having been held in the above-entitled proceeding, the evidence having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Inglewood City Lines be and it is hereby authorized to increase its present 10-cent fare to 11 cents, on not less than ten (10) days' notice to the Commission and to the public.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 32522 be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that, in addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its buses and terminals a printed explanation of its fares. Such notice shall be posted not less than ten (10) days before the effective date of the fare changes, and shall remain posted until not less than twenty (20) days after said effective date.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) 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 22nd day of January, 1952.

R. J. [Signature]
President
Justin J. [Signature]
Harold P. [Signature]
Ed L. [Signature]

Commissioners

Commissioner Kenneth Potten, being necessarily absent, did not participate in the disposition of this proceeding.