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Decision No. 46724

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the amended application of ASBURY RAPID TRANSIT SYSTEM requesting authority to increase certain of its rates of fare.	)	Application No. 32284

Appearances

Don L. Campbell, Bart F. Wade, and Rodney F. Williams, for applicant.
Roger Arnebergh, T. M. Chubb, and T. V. Tarbet, for City of Los Angeles, interested party.
Archie L. Walters and Harman R. Bennett for City of Burbank, interested party.
John H. Lauten for City of Glendale, interested party.
Stuart W. Robinson, for Sunland-Tujunga Chamber of Commerce, protestant.
Elliott P. Fagerberg for Citizens Transit Committee of Metropolitan Los Angeles, interested party.
Thomas A. Hopkins for Transportation Department, Public Utilities Commission of the State of California.

OPINION

Asbury Rapid Transit System operates an urban passenger bus service within and between the cities of Los Angeles, Pasadena, Burbank, San Fernando, Culver City, and intermediate and adjacent areas. By this application, as amended, it seeks authority to establish increased fares. Applicant alleges that higher fares have been made necessary by substantial increases in the costs of operation.

Public hearings were held before Examiner Bryant at Los Angeles on December 12, 1951, and January 3 and 4, 1952. The matter is ready for decision.

Applicant introduced evidence through its vice president, through the administrative assistant to the vice president, and through an employee responsible for research, statistical analyses and preparation of operating schedules. These witnesses testified that the company has been incurring losses for many months, that its financial condition is critical, that it has had to borrow money to meet its payroll and other current expenses, and that these conditions have prevailed despite the fact that the management has made all feasible economies.

According to the testimony, the current assets of the company were about one-third of the current liabilities at the end of September, 1951. This condition, it was stated, reflected the extreme jeopardy of the company's financial condition. At that date the company owed more than $73,000 to an affiliated corporation, all of which had assertedly been borrowed to meet operating expenses. By the beginning of December the amount owed to the affiliate had risen to nearly $100,000. The witnesses said that the number of office employees had been reduced, that the payment of commissions to ticket agents had been discontinued, that all non-essential maintenance of vehicles had been eliminated, that fuel costs had been lowered through the purchase of vehicles powered by propane, that the number of schedules had been reduced wherever it was possible to do so without curtailing necessary services, and that authority had been sought and obtained to discontinue service over certain unprofitable routes.[1]

[1] Abandonments were authorized by Decision No. 46451 of November 20, 1951, in Application No. 32603 (unreported). They affect service between San Fernando on the one hand and U.S. Veteran's Hospital and Olive View Sanitorium on the other, between Sunland and North Hollywood, and between North Hollywood and Warner Brothers' Studio.

Except for the economies expected to result from the authorized route abandonments,[2] and except for further fuel economies anticipated when the fleet of buses can be converted fully from gasoline to propane operation, the witnesses declared that they knew of no additional economies which could be made without jeopardizing or discontinuing necessary public services. Any further reduction in maintenance, they said, would increase the number of road failures and jeopardize safety, and further curtailment in schedules would be tantamount, in many cases, to abandonment of the service.

Applicant conducts its operations over approximately fifteen routes. The principal services are between downtown Los Angeles and San Fernando Valley, between Pasadena and Hollywood, and between Hollywood and Culver City. The Los Angeles-San Fernando operations are conducted via a variety of routes serving Glendale, Burbank, North Hollywood, Sun Valley and Pacoima. Applicant has nine fare zones. The present one-way adult fares range from 10 cents to 48 cents, depending upon the number of zones traversed. In general the single-zone fare is 10 cents, with 5 cents added for each additional zone. Reduced commutation fares are maintained where the one-way fare is 20 cents or more. The fares for children, and school fares sold in books of 40 rides, are approximately one-half of the adult one-way fares.

Applicant herein proposes to increase its single-zone fare from 10 cents to 15 cents. For each ride of two or more zones, the present fares would be increased by 3 cents each, except that no

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2 Effective December 30, 1951.

change would be made in the 35-cent fare[3]. Commutation fares would be discontinued wherever the one-way fare is 35 cents or less. Some school fares would be increased. Children's fares would be increased to maintain the relationship of one-half of the adult one-way fares. The present and proposed fares are set forth in more detail in the footnote below.[4]

The company submitted income statements for past periods and estimates of future operating results under present and proposed

3 A federal transportation tax of 15 percent applies on all fares in excess of 35 cents. Thus if the 35-cent fare were increased to 38 cents, the passenger would be required to pay a fare, including tax, of 44 cents. Applicant's vice president believed that the increase from 35 cents to 44 cents would be excessive, and would cause such loss of patronage that no additional revenue would result therefrom.

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ADULT one-way fare		COMMUTATION 12 ride		COMMUTATION 30 ride		SCHOOL FARE 40 ride	
Present	Proposed	Present	Proposed	Present	Proposed	Present	Proposed
$ .10	$ .15	$ -	$ -	$ -	$ -	$ 2.00	$ 3.00
.15	.18	-	-	-	-	3.00	4.00
.20	.23	-	-	5.40	D	4.00	4.50
.25	.28		-	6.75	D	5.25	5.25
.30	.33	3.25	D	-	-	7.00	7.00
.35	.35	3.75	D	-	-	8.50	8.50
.39	.42	4.50	4.50	-	-	9.50	9.50
.43	.46	5.00	5.00	-	-	10.00	10.00
.48	.51	5.50	5.50	-	-	10.50	10.50

D - To be discontinued.

fares. Income statements for the years 1949, 1950 and the first nine months of 1951, as submitted by the applicant, are set forth below.

TABLE 1
COMPANY INCOME STATEMENTS

Item	1949	1950	9 months 1951
Operating Revenue	$1,321,652	$1,231,806	$ 927,542
Operating Expenses			
Equipment and Maintenance	$ 285,956	$ 250,918	$ 208,155
Transportation	644,595	617,740	480,350
Station	48,734	36,036	19,876
Traffic and Advertising	17,568	17,696	14,836
Insurance and Safety	67,149	73,654	73,709*
Administrative and General	40,200	31,193	26,276
Other Expense	210,434	200,880	155,083
Total Operating Expenses	$1,314,636	$1,228,117	$ 978,285
Net Operating Income	$ 7,016	$ 3,689	($50,743)
Interest Income	$ 238	$ 12	$ -
Total Income	$ 7,254	$ 3,701	$ -
Other Deductions	$ 8,193	$ 7,165	$ 4,921
Net Income	($ 939)	($3,464)	($55,664)
Net Credit to Surplus	($ 939)	($3,464)	($55,664)

(LOSS)

* Adjusted to include retrospective insurance premiums of $24,503.

In addition to the income statements for past periods, as shown in the foregoing table, applicant introduced route maps, a balance sheet as of September 30, 1951, and statements of anticipated average net investment and estimated operating results for the year ending with January 31, 1953. The estimates included detailed development of vehicle mileages, of revenues by classes of fare, and of operating expenses by account number.

Evidence was introduced also by an associate engineer and a senior engineer of the Commission's transportation staff. The associate engineer submitted a report covering applicant's operations and service. A principal purpose of this study was to develop mileage estimates to be used as a factor in the determination of annual operating costs. This exhibit included an analysis of the vehicle mileages being operated on each of applicant's lines under existing service schedules, with a corresponding estimate of mileage to be operated during the rate year. The estimate for the future took into account all route changes heretofore authorized, and included some reductions in schedule which the witness believed could properly be made with no material loss in service. The schedule reductions would result in part from the use of larger buses which were recently acquired, and in part from anticipated traffic decline under increased fares.[5] This witness concluded that "the company is well aware of the need for maintaining an efficient operation, and the record of the recent past is evidence that the policy of providing a high standard of service to the greatest number of persons at the lowest possible rate of fare will be continued."

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[5] The estimated mileages for the rate year ending January 31, 1953 were as follows:

Present service and traffic	2,660,400 miles
Adjusted service, present traffic.............	2,645,020 miles
Adjusted service, 5% or 6% traffic decline...	2,633,392 miles
Adjusted service, 8% traffic decline.........	2,621,764 miles

The senior engineer submitted income statements for past periods as reported by the company, and estimated operating results for the future. The income statements for the 5 years ended with 1950 are set forth below:

TABLE 3

Company Income Statements (Unadjusted)

Item	1946	1947	1948	1949	1950
Operating Revenue	$1,108,542	$1,237,321	$1,355,125	$1,321,652	$1,231,806
Operating Expenses	$				
Operation and Maintenance Expense	$ 872,145	$1,060,083	$1,146,351	$1,104,201	$1,027,237
Depreciation	42,446	63,251	73,501	72,598	79,528
Operating Taxes and Licenses	73,869	99,359	109,787	106,276	108,292
Operating Rents	31,400	31,160	34,485	31,560	13,060
Total Oper. Exp.	$1,019,860	$1,253,853	$1,364,124	$1,314,635	$1,228,117
Net Operating Revenue	$ 88,682	$ (16,532)	$ (8,999)	$ 7,017	$ 3,689
Other Income*	-	-	$ 52,791	$ 238	$ 12
Income Deductions*	$ 18,993	$ 5,970	$ 9,964	$ 8,193	$ 7,164
Net Before Income Tax	$ 69,689	$ (22,502)	$ 33,828	$ (938)	$ (3,463)
Income Tax	$ 26,482	-	$ 5,491	-	-
Net Income	$ 43,207	$ (22,502)	$ 28,337	$ (938)	$ (3,463)
Operating Ratio ** (After Income Tax)	94.4%	101.3%	101.1%	99.5%	99.7%
Approximate Rate Base**	$ 332,390	$ 449,290	$ 555,959	$ 528,524	$ 522,818
Approximate Rate of Return**	13.0%	-	5.1%	-	-

(____) - Loss

* Nonoperating
** Calculated by Commission staff:
Operating Ratio represents Operating Revenue divided by Total Operating Expenses, including Income Tax.
Rate of Return represents "Net Income" divided by "Approximate Rate Base".

Estimated operating results for the rate year ending with January, 1953, as submitted by applicant and by the Commission's staff, are summarized comparatively in Table 4. Corrections and modifications which were made orally by the witnesses during the course of the hearings have been incorporated into the table so far as possible.

TABLE 4

ESTIMATED OPERATING RESULTS
For the year ending January 31, 1953

Item	APPLICANT Present Fares	APPLICANT Proposed Fares	COMMISSION ENGINEER Present Fares	COMMISSION ENGINEER Proposed Fares	COMMISSION ENGINEER Alternate 1 or 2 (See explanation below)	COMMISSION ENGINEER Alternate 3 (See explanation below)
Total Operating Revenue	$1,164,160	$1,322,245	$1,198,687	$1,381,233	$1,334,081	$1,291,000
Total Operating Expenses	$1,297,207	$1,291,878	$1,206,877	$1,200,976	$1,207,039	$1,206,384
Net Operating Revenue (Before Income Tax)	$ (133,047)	$ 30,367	$ (8,190)	$ 180,257	$ 127,042	$ 84,616
Income Tax	-	$ 6,624	-	$ 104,881	$ 68,831	$ 40,090
Net Operating Revenue (After Income Tax)	$ (133,047)	$ 23,743	$ (8,190)	$ 75,376	$ 58,211	$ 44,526
Rate Base	$ 613,988	$ 613,988	$ 639,290	$ 639,290	$ 639,290	$ 639,290
Rate of Return (After Income Tax)	-	3.9%	-	11.8%	9.1%	7.0%
Operating Ratio (After Income Tax)	111.4%	98.2%	100.7%	94.5%	95.6%	96.6%

( ) - Loss

Explanation of Alternate Fare Bases

Alternate 1 - Increase each adult one-way fare by 3 cents. *

Alternate 2 - Increase by 5 cents each adult one-way fare of 25 cents or less, and provide a 12½-cent token (2 for 25 cents). The token would be equivalent to 15 cents for fare purposes, but would not be usable when the present fare exceeds 25 cents. Adult one-way fares in excess of 25 cents would be increased by 3 cents each. *

Alternate 3 - Increase each adult one-way fare by 2 cents. *

* No increase would be made in commutation, school, or children's fares, nor in the 35-cent adult one-way fare.

There are numerous reasons for the substantial differences in the estimates. Since the estimates deal with conditions in the future, they are necessarily the product of judgment. Also, the witnesses used methods which were somewhat dissimilar. Applicant's revenue forecast was based upon modifications and adjustment of the actual experience figures for the first ten months of 1951. The engineer determined a long-term weighted trend for the period from January, 1949, to September, 1951. Applicant's expense estimates were developed in large part from the expenses actually incurred in the first six months of 1951, while the engineer took as his base the book record for the first nine months of the year. Applicant made adjustments for nonrecurring items, and both witnesses made numerous modifications in the experience figures for the purpose of developing projected expenses for the future rate year.

So far as operating revenues are concerned, the differences stem wholly from differences in judgment concerning the number of passengers to be carried during the year. Both witnesses took into consideration past experience and apparent trends, but the staff engineer used the longer period. As indicated in Table 4, he forecast the greater number of riders and consequently the greater revenues. It was his testimony, nevertheless, that his passenger estimate was conservative. He indicated that, despite an apparent upward trend in patronage during the first nine months of 1951 compared with the corresponding period in 1950, he had purposely forecast a slightly downward trend in order to avoid possible overstatement of revenues. Considering all of the circumstances, it is concluded that the staff revenue forecast is not unreasonably optimistic, and that it is the most reasonable estimate of record.

With reference to the operating expenses, the differences in a number of items are attributable in large part to variances in the estimated mileages. Increases or decreases in coach miles will result in increases or decreases in such expense items as repairs, servicing, tires, tubes, drivers' wages, fuel and lubricants. The estimated mileages used in the staff exhibits were those developed by the associate engineer as hereinbefore explained. The mileages used by applicant were developed by checking the weekly mileage figures for the first part of December and expanding them for the rate year according to the number of school days, other week days, Saturdays, Sundays and holidays. However, the company witnesses miscalculated the number of school days and Saturdays during the selected rate year, which resulted in some undetermined overstatement of the resulting mileages.

There are substantial differences also in the expense estimates for public liability and property damage insurance and for depreciation, as follows:

	Applicant's Estimate	Engineer's Estimate
Public Liability and Property Damage Insurance	$ 76,964	$ 56,560
Depreciation	$ 97,427	$ 82,732

Applicant's insurance estimate was based upon premium payments (basic and retrospective) anticipated during the coming year. The engineer's estimate was based upon analysis of applicant's average annual net cost of insurance over a period of more than six years, giving consideration to all premium adjustments and all amounts returnable by the insurance carrier. The engineer stated that the premiums, considered alone, are not a reliable indication of the actual net cost of applicant's insurance. He pointed out that his own estimate allows a net annual insurance cost greater than Asbury has incurred in any representative period of the past six years. The difference in the depreciation estimates was due in part to the fact that applicant depreciated certain of its equipment on an eight-year basis, whereas the engineer adjusted the depreciation to a ten-year basis, and in part to the fact that applicant, in doubling a six-months figure to get the annual charge, overlooked the fact that some of the older vehicles would be fully depreciated before the end of the rate year.[6]

The difference in the rate base estimates, as may be noted from Table 4, is $25,302, or less than four percent. The engineer's figures is the higher of the two. The company witnesses believed their figure to be too low, but did not indicate by what amount.

No other witnesses testified. The record shows that notices of hearing were duly posted in all of applicant's buses and terminals, and were published in newspapers of general circulation in the areas served. In addition, the Commission's secretary sent the customary notices to persons and organizations believed to be interested. Representatives of the cities of Los Angeles, Burbank and Glendale, of the Sunland-Tujunga Chamber of Commerce, and of the Citizens Transit Committee of Metropolitan Los Angeles, participated in the development of the record through cross-examination of the witnesses.

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[6] There were various other differences in the expense estimates, variously explained, and generally in undetermined amounts. For example, applicant's witnesses inadvertently overstated payroll taxes for the future rate year, and also overlooked certain rebates or credits which Asbury receives from its tire supplier.

A representative of the City of Los Angeles pointed out that recent route changes and abandonments in the San Fernando Valley were expected to result in a material improvement in the earning position of the company, and he urged that action on the present application be withheld until these results can be evaluated.[7] The City's position has been duly considered. The record is clear that the savings which will result from the recent route changes and abandonments will be insufficient to warrant any delay in the disposition of this proceeding. These service changes were considered by the staff witnesses in estimating applicant's revenues and expenses for the rate year, and will be reflected in the Commission's conclusions herein.

The City of Glendale drew particular attention to the Commission's admonition in a prior decision, authorizing certain temporary services and route changes within the City of Burbank.[8] The authority granted in that decision was subject to the provision that "any financial losses incurred by reason of operations (therein) authorized shall not be used as an argument by applicant before this Commission for increases in fares on the more productive lines of its system." In order to determine the extent to which the Burbank operations in question might be nonproductive, the Commission engineer submitted a study of the revenues and expenses developed on this line during the month of October, 1951. According to this exhibit the local Burbank lines incurred an out-of-pocket loss for the month of about $1,260.[9] It is clear, under Decision No. 43372, *supra*,

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[7] The changes in question are those referred to in Footnotes 1 and 2 herein, authorized by Decision No. 46451, *supra*.

[8] Decision No. 43372, of October 4, 1949, in Application No. 30638 (49 Cal. P.U.C. 134).

[9] Applicant's witnesses suggested that any losses from the local Burbank operation might be to some extent offset through patronage developed for other routes. However, neither applicant nor the staff undertook to establish any such offset.

that the Burbank losses must be borne by applicant and not by patrons of its other services. The existence of or extent of these losses for the future year will be dependent in part, of course, upon the level of fares established. The estimated out-of-pocket losses from the Burbank lines, under rates to be authorized, will be disallowed as an expense factor in determining applicant's revenue needs herein.

Upon consideration of all the facts and circumstances, it is concluded that the estimated operating results submitted by the staff engineers, as modified at the hearings, are the most reasonable forecasts of record. The staff estimates, with adjustment for the Burbank operating losses, will be taken as the basis for the conclusions which follow.

Aside from their revenue producing aspects there are other matters to be considered in connection with the several fare plans of record. Under applicant's proposal the single-zone riders would be faced with a 50 percent fare increase, and would be called upon to contribute more than 60 percent of the increased revenues. The resulting single-zone fare would be higher than that maintained by any other major transit system in the area. The sought increases in commutation fares and school fares would bear no apparent relationship to the proposed increases in one-way fares; and some of the school fares would be advanced as much as 50 percent. Regardless of the company's revenue needs, applicant did not establish the reasonableness of its proposed fares.

The alternative fares suggested by the Commission engineer likewise include some apparent maladjustments. In particular they contemplate no change in any of the commutation fares or children's half fares. These fares are relatively unimportant to applicant from a revenue-producing standpoint, but no reason appears why the commutation riders should not assume some share of the increased cost burden, nor why the fares for children should not be increased in accordance with the existing half-fare rule.

The engineer's Alternate 2, adjusted as to the commutation and children's fares would constitute a more reasonable fare plan. This basis would provide a single-zone cash fare of 15 cents or a token fare of 12½ cents (2 for 25 cents). The fares in substance would be the same as those recently authorized for and established by Los Angeles Transit Lines and Pacific Electric Railway Company, both of which serve the metropolitan Los Angeles area. Applicant objected to token fares, asserting that at least a number of months would be required for the company to acquire tokens and the necessary fare-box equipment.

The possible difficulty of acquiring tokens and equipment is not a valid reason at this time for withholding fares which are reasonable and necessary. The difficulty, it is believed, may be less serious than feared by applicant. Nevertheless, the possibility of delay must be considered, and some provision should be made for collecting higher fares pending acquisition and installation of token equipment. In the circumstances the token-fare basis will be approved, and applicant will be authorized to establish temporarily, pending the acquisition of tokens and equipment, an interim coin fare basis which will produce approximately identical revenues. The interim basis is the staff engineer's Alternate 1, modified as to commutation and children's fares.

It is estimated that the operating results for the rate year, under either of these fare bases, will be as indicated in the following Table 5:

TABLE 5

ESTIMATED OPERATING RESULTS
For the year ending January 31, 1953

Item	Under Authorized Fares
Operating Revenues	$1,363,014
Operating Expenses	$1,207,039
Less Burbank Losses	3,762
Adjusted Operating Expenses	$1,203,277
Net Operating Revenue (Before Income Tax)	$ 159,737
Provision for income taxes	$ 90,982
Net Operating Revenue*	$ 68,755
Rate Base	$ 639,290
Rate of Return*	10.8%
Operating Ratio*	95.0%

* After provision for income taxes

For the purpose of this decision we hereby adopt the operating results and rate base as set forth in Table 5, and hereby find a rate of return of 10.8% on a rate base of $639,290, when considered in relation to an operating ratio of 95 percent, after income taxes, to be fair and reasonable for Asbury Rapid Transit System. The fares hereinafter authorized have been justified on this record.

Counsel for applicant requested orally, at the close of the hearing, that the company be authorized to depart from rules of tariff construction which require that increased fares be designated by symbol. He asserted that compliance with the rule would necessitate that practically every fare be flagged, would involve some additional work for applicant, and would serve no particularly useful purpose. The order which follows does not authorize increases in all of applicant's fares. Applicant's present tariff contains several hundred separate fare figures. Compliance with the rule in question provides the only means by which the Commission's staff or the public may readily determine which fares applicant has increased. The reasons advanced by applicant's counsel do not constitute good or sufficient reason for authorizing the proposed departure from the tariff filing rules. The request will be denied.

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 Asbury Rapid Transit System be and it is hereby authorized to establish, on not less than ten (10) days' notice to the Commission and to the public, the following changes in fares:

1. Increase adult one-way fares as follows:

Present	Authorized
10 cents	15 cents or token
15 cents	20 cents or token plus 5 cents
20 cents	25 cents or token plus 10 cents
25 cents	30 cents or token plus 15 cents
30 cents	33 cents (no token)
35 cents	35 cents (no token)
39 cents	42 cents (no token)
43 cents	46 cents (no token)
48 cents	51 cents (no token)

Tokens are to be sold at the rate of two tokens for 25 cents.

2. Increase certain commutation fares as follows:

Present	Authorized
30 rides for $5.40	30 rides for $6.20
30 rides for $6.75	30 rides for $7.55
12 rides for $3.25	12 rides for $3.60

3. Increase the fares for children to the extent resulting from application of Item No. 40 of Asbury Rapid Transit System Local and Interdivision Passenger Tariff No. 1-A, Cal. P.U.C. No. 106.

IT IS HEREBY FURTHER ORDERED that, pending the acquisition of tokens and necessary fare-box equipment, Asbury Rapid Transit System be and it is hereby authorized to establish, in lieu of the first four fares authorized in sub-paragraph 1 above, certain increased adult one-way fares as stated below. The following fares, if they are established, shall be published for an interim period only, and shall be flagged to expire one hundred and eighty (180) days after their effective date unless sooner canceled.

Present	Authorized
10 cents	13 cents
15 cents	18 cents
20 cents	23 cents
25 cents	28 cents

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 32284, as amended, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that in addition to the required filing and posting of tariffs, applicant shall give notice to the public by posting in its buses and terminals a printed explanation of its fares. Such notices 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, except as provided in the second ordering paragraph herein, 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 5th day of February, 1952.

R. T. Mueller
President

Justus F. Craemer

Harold P. Hulse

Kenneth Potter

Peter E. Mitchell
Commissioners