

Decision No. 4675d**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SUNSET STAGES, a corporation for an )  
 order granting permission to increase ) Application No. 32483  
 and adjust and place into effect )  
 certain fares for the transportation )  
 of passengers on its lines. )

Appearances

Collamer A. Bridge, for applicant.

Glenn Newton, for Engineering Division, and Leonard  
 Diamond for Rate Division, Transportation  
 Department, Public Utilities Commission of the  
 State of California.

O P I N I O N

Sunset Stages, a corporation, is engaged in transporting persons by motor coach as a common carrier within and between the cities of Redondo Beach, Hermosa Beach, Hawthorne, Inglewood and intermediate points. By this application, as amended, it seeks authority to establish increased fares.

Public hearing of the matter was held before Examiner Abernathy at Hermosa Beach on November 20, 1951.

Applicant's present fares range from 10 cents to 30 cents per ride, depending upon the zone or zones involved. The 10-cent fare applies for rides within the same zone or between any two contiguous zones. The other fares are constructed by adding to the basic 10-cent fare an additional charge of 5 cents per zone for rides beyond two zones. Applicant is seeking herein to make the 10-cent fare applicable only for transportation within the same zone, to

assess a 15-cent fare for rides between two or three zones to assess 20 cents for a four-zone ride and 30 cents for a five or six-zone ride. In effect it seeks to establish a 5-cent increase in its two and five-zone fares. The other fares would remain unchanged.

Applicant's fares were increased last on August 29, 1950.

Applicant alleges that since then it has been required to grant substantial wage increases to its employees, that the costs of tires, gasoline and other items of bus maintenance also have increased substantially, and that during the same time passenger revenues have decreased. It states that it has exercised great diligence in order to increase its revenues and to reduce its expenses but that notwithstanding its efforts its operations have been conducted at a loss. It states also that further increases in operating costs will be incurred during 1952. Applicant avers that increases in fares are urgently needed to restore its operations to a profitable basis.

Financial results of operations during 1951 were reported by applicant as follows:

<u>1951 Operating Results</u>	
<u>10 Months January through October, 1951</u>	
<u>Gross Operating Revenues</u>	
Passenger Revenues	\$ 201,598
Other Operating Revenue	2,178
Total Revenues	\$ 203,776
<u>Operating Expenses</u>	
Maintenance	\$ 40,705
Transportation	97,790
Traffic	158
Insurance and Safety	10,847
Administration	20,412
Depreciation	12,833
Operating Taxes and Licenses	16,311
Total Expenses	\$ 199,056*
<u>Net Operating Revenues</u>	\$ 4,720

\* Adjusted to eliminate interest expense of \$316

Applicant originally sought a 5-cent increase in all of its multiple-zone fares, but amended its application at the hearing to the basis indicated, stating that it had concluded an excessive diminution of its traffic would result from establishment of the fare increases first proposed.

Results of prior years' operations, as disclosed in the company's annual reports to the Commission, are summarized in the following tabulation:

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
Operating Revenues	\$275,963	\$275,573	\$233,647	\$237,901
Operating Expenses	<u>271,065</u>	<u>288,109</u>	<u>240,112</u>	<u>240,834</u>
Net Operating Revenues	\$ 4,898	<u>(\$ 12,536)</u>	<u>(\$ 6,465)</u>	<u>(\$ 2,933)</u>
( ) Loss				

Applicant's vice president asserted that the increases in operating expenses which his company will experience during 1952 will exceed \$25,500. He testified that under terms of his company's contract with its drivers an increase of two cents an hour will become effective on July 1, 1952, that insurance costs will be increased as a consequence of recent orders of the Commission prescribing the amounts of insurance to be carried by passenger stage corporations, that the condition of the buses requires that extensive overhaul work be done during the coming year, that under present price trends the costs of repair parts and supplies will be approximately 10 percent over 1951 levels, and that license costs will be higher during 1952 as a result of a recent replacement of old vehicles. He estimated that increases in these specified operating costs would be as follows:

Drivers' wages	\$ 1,560
Insurance	2,400
Overhaul of buses	12,820
Repair parts	2,300
Licenses	<u>300</u>
	\$ 19,380

Details concerning the \$6,120 balance of the estimated \$25,500 increase in expenses were not supplied by the witness. It appears, however, that an increase of approximately 31,000 bus miles of operation is planned for the coming year and that the balance of the expense estimate is attributable to the increase in service.

Applicant's vice president estimated that the sought fare increases would produce additional revenues amounting to about \$33,000 annually. This figure, he said, was derived from a survey which he had made of the traffic involved and by which he had made a determination of the number of passengers who would be subject to the higher fares. He anticipated that under the higher fares his company's earnings during 1952 would amount to \$11,500 before allowance for income taxes and \$7,667 after allowance for income taxes.<sup>2</sup>

A transportation engineer of the Commission's staff also introduced evidence relating to applicant's operations. In an exhibit which he submitted he set forth a summary of applicant's passenger traffic data and bus miles of operation from 1946, operating expense figures for 1950, and estimates of future operating results under present fares and under the fares originally proposed. In addition he developed estimates of results under alternative fare increases, including the increases sought in the amended application. The engineer's estimates under present fares and under the amended proposal are as follows:

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2

Applicant's witness did not develop a rate base by which the anticipated earnings could be measured in terms of rate of return. The operating ratio figure which is indicated by his estimate of earnings after taxes is 97.2 percent.

Estimated Results of Operation  
Year Ending December 31, 1952

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
<u>Gross Operating Revenues</u>		
Passenger Revenues	\$ 240,200	\$ 268,530
Other Operating Revenue	1,800	1,800
Total Revenues	<u>\$ 242,000</u>	<u>\$ 270,330</u>
<u>Operating Expenses</u>		
Maintenance	\$ 55,480	\$ 55,480
Transportation	128,490	128,490
Traffic	400	400
Insurance	16,600	16,600
Administration	22,330	22,330
Depreciation	13,510	13,510
Operating Taxes	24,390	25,110
Total Expenses	<u>\$ 261,200</u>	<u>\$ 261,920</u>
<u>Net Operating Revenues</u>	\$ <u>(19,200)</u>	\$ 8,410
Income Taxes	25	2,140
<u>Net Income</u>	\$ <u>(19,225)</u>	6,270
Rate Base	\$ 123,330	\$ 123,330
Operating Ratio(after income taxes)	107.9%	97.7%
Rate of Return	-	5.1%
( ) Loss		

The estimates of results under other fares which the engineer considered are virtually the same or more favorable to applicant than those anticipated from the amended proposal. The engineer calculated that the fares which applicant originally proposed would result in a rate of return of 12.2 percent with an operating ratio of 94.7 percent and that other of the alternative fare structures would result in rates of return ranging from 5 percent to 7.2 percent and corresponding operating ratios ranging from 97.7 percent to 96.8 percent.

No one else offered evidence in the proceeding. The record shows that notices of the hearing were sent by the Commission's secretary to persons believed to be interested. Also, notices were published in a newspaper of general circulation in the area involved and were posted in applicant's vehicles. No one opposed the granting of the application.

As the foregoing summary of the record herein shows, applicant has sought to justify its sought fare increases by a showing of large increases in operating expense which it expects to experience during the coming year. Although the evidence is convincing that applicant will have to meet higher expenses during 1952, it appears that in several respects the anticipated expenses have been overstated and that they should be adjusted in order to arrive at an appropriate determination of the company's revenue needs.

First, it is clear that applicant, by its accounting methods, exaggerates the amount of expenses assignable to 1952 operations for overhaul of buses. Applicant's vice president asserted that the entire amount of the expected outlay of \$12,820 should be charged to expenses for the year. It is evident that the amount of overhaul which is contemplated is much in excess of normal maintenance and repair. Where items of abnormal expense are involved, proper accounting for rate making purposes requires that the expenses be amortized over a period consistent with the period or periods for which the expenses are incurred. Applicant's witness testified to the effect that the last time that overhaul work of similar scope was done was in 1948. No estimates were submitted to show when, after 1952, a further general overhaul of the vehicles would be necessary. Applicant's past experience, however, indicates a four-year period as being a proper basis for amortization of the charge of \$12,820. On this record it appears that the charges for bus overhaul to be applied against 1952 expenses should not exceed \$3,205 with charges of a like amount being made to operating expenses for each of the three ensuing years.

Applicant's expense estimates should also be adjusted with respect to the item of \$2,300 for increased costs of repair

parts. This amount appears to be solely a judgment figure based upon the appraisal of applicant's vice president of present price trends. Whether the price of parts will increase during 1952 as much as to result in an average cost increase of 10 percent appears to be largely a matter of speculation.<sup>3</sup> As has been pointed out repeatedly in instances of similar matters, items of anticipated expenses which are primarily speculative in nature are not acceptable as a basis for authorizing increases in fares. The item will be disallowed.

In addition to the expense increases discussed above, applicant's depreciation charges will be revised during the coming year as a result of additions and retirements of operating properties. It appears that the net effect of the revisions upon applicant's expenses for the year will be small, however, and need not be considered here.

With adjustments in applicant's expense estimates being made as indicated, the expense increases which may be considered as proper for the purposes of this proceeding are as follows:

Drivers' wages	\$ 1,560
Insurance	2,400
Overhaul of buses	3,205
Licenses	300
Expenses from increase in service	<u>6,120</u>
Total	\$ 13,585

3

It should be noted that numerous variables would affect the amount of increase in costs which applicant would experience. Some of these are within applicant's control and include the amount of inventory normally carried and company policy regarding purchases in anticipation of expense increases. The point of time during the year when the greater part of the anticipated price increases become effective will also have a marked bearing upon the increase in applicant's costs.

With reference to the revenue aspects of applicant's showing, it appears that applicant's predictions understate the earnings which reasonably may be expected during the coming year. Applicant's predictions were made almost wholly on the basis of the additional revenues anticipated from the sought fares. Little if any consideration was given to the level of present earnings. Yet the evidence shows that during recent months earnings have increased materially. The amount of increase is indicated by the following tabulations which have been developed from data of record:

Revenues and Expenses

	<u>4 months January through April, 1951</u>	<u>6 months May through October, 1951</u>
Gross Operating Revenues	\$ 78,996	\$ 124,780
Operating Expenses	<u>80,866</u>	<u>118,190</u>
Net Operating Revenues	( <u>\$ 1,870</u> )	\$ 6,590

( ) Loss

No specific reasons were advanced in explanation of the improvement in earnings. However, the Commission engineer, in his testimony, reported that applicant has recently experienced an upturn in traffic. Undoubtedly, applicant's earnings statements reflect this upturn. Moreover, official notice is taken of the fact that effective August 13, 1951, the Commission authorized the discontinuance of certain transportation services near the City of Hawthorne which applicant reported were resulting in losses of approximately \$10 per day.<sup>4</sup>

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<sup>4</sup> Application No. 32515 and Decision No. 45977. By the decision in this application the operative authority over the route in question was annulled.



In addition to increasing its earnings since April as indicated, applicant has taken steps to rid itself of an unprofitable route in the City of Manhattan Beach. In response to its application the company was authorized to suspend service over the route for a period of one year.<sup>5</sup> Suspension of the service as authorized apparently was accomplished a short time prior to the hearing herein and the effects thereof are not reflected in applicant's operating statements. The indicated savings in net revenues from the suspension approximates \$3,750 annually.

Applicant's revenue estimates apparently do not include revenues expected to be realized from the operation of the additional bus miles during 1952. According to the testimony of applicant's vice president, this additional service will involve principally the transportation of students to and from new schools to be opened in the near future. The additional gross revenues which are expected from the service amounts to \$4,800. Inasmuch as it appears that the costs of the service are included in the expense estimates of applicant's witness, it is proper that the anticipated revenues should be included likewise.

It is clear from the foregoing that applicant's present rate of earnings is by no means negligible. Converted to an annual basis, the rate of earnings for the six months since April 1951, totals \$13,180; with allowance made for the saving from discontinuance of unprofitable operations in Manhattan Beach and for the \$4,800 in revenues from the expected addition of service, it totals \$21,730. By establishing the sought fares, applicant would increase

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<sup>5</sup> Decision No. 46245, dated October 2, 1951, in Application No. 32633.

this amount by an estimated \$33,000. Net operating results for the coming year, after allowance for the anticipated expense increases (adjusted as discussed hereinbefore), would be as follows:

Estimated Operating Results (Adjusted), 1952

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Net Revenues (before allowance for expense increases)	\$ 21,730	\$ 54,730
Less Estimated Expense Increases	<u>13,585</u>	<u>13,585</u>
Net Revenues	\$ 8,145	\$ 41,145
Income Taxes	<u>2,672</u>	<u>13,496</u>
Net Income	\$ 5,473	\$ 27,649
Rate Base (a)	\$ 123,330	\$ 123,330
Rate of Return (after income taxes)	4.4%	22.4%
Operating Ratio (after income taxes)	97.8%	90.1%

(a) As computed by Commission engineer.

It will be observed from the foregoing table that the operating results for the coming year which were developed from applicant's own financial statements and from the revenue and expense estimates of applicant's vice president differ widely from the results forecast by the engineer. Whereas the engineer estimated a substantial loss from present fares and a moderate profit from the sought fares, applicant's operating experience indicates the realization of a small profit from present fares and a large profit from the proposed fares. There appears to be no satisfactory basis on this record for reconciling the differences.

Under the circumstances our conclusions herein necessarily must be reached upon the more favorable earnings showing of applicant's data since the burden of proof in proceedings of this nature must be borne by the applicant. Although it may be questioned whether the earnings from applicant's present fares will be sufficient to maintain applicant in a sound operative condition, earnings as great as those which the sought fares will return have not been shown to <sup>be</sup> reasonable or necessary. There appearing on the record no intermediate basis of fares which will produce reasonable results, the application will be denied in full for lack of justification. Denial of the application will be without prejudice to such further showing that applicant may make in support of a fare adjustment.

Aside from its showing of expense increases, applicant did not undertake to demonstrate the reasonableness of the sought fare adjustments themselves. Establishment of the higher fares would result in burdening those of applicant's patrons who ride between points in two contiguous zones with 90 percent of the total cost increases, with the balance being borne by the five-zone riders. The equity of this distribution of the increases in operating costs, which apply to applicant's operations as a whole, is not apparent.

It is noted also that in applicant's fare zone structure there is a substantial lack of uniformity in the size of the zones and that the zones range from one and one-quarter miles to more than four miles in length. Under applicant's proposal passengers may travel within one zone for a fare of ten cents. Other passengers

may board the same bus at another point on the route and travel the same distance, but their travel would be between points in three zones and the applicable fares would be 15 cents. Applicant did not undertake to substantiate the propriety of the differences in its charges for the same lengths of haul.

In seeking further adjustments in its fares applicant should give consideration to revising its fare structure to a more uniform basis or, in the alternative, to undertaking specifically to show the reasonableness of its fare structure as affected by the proposed adjustments.

O R D E R

Public hearing having been had of the above-entitled application, the evidence received therein having been considered carefully, the Commission being of the opinion and hereby finding that the sought increases in fares have not been shown to be justified,

IT IS HEREBY ORDERED that the above-entitled application be and it is hereby denied.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 13th day of February, 1952.

[Signature]  
President  
[Signature]  
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Commissioners