

Decision No. 47083

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Stockton City Lines, Inc., request- ing authority to increase certain of its rates of fares.	} Application No. 33003
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Appearances

Jones, Lane, Weaver & Daley, by Daniel S. Lane,
for applicant.
Bill Dozier, for City of Stockton, protestant.
H. J. McCarthy and T. A. Hopkins, for the
Commission's staff.

O P I N I O N

Stockton City Lines, Inc., is a passenger stage corporation engaged in the transportation of passengers within and in the vicinity of Stockton. By this application, as amended, it seeks authority to establish increased fares.

Public hearing of the application was held at Stockton on March 17, 1952, before Examiner Jacopi. Evidence was offered by applicant's general auditor, by transportation engineers of the Commission's staff and by an office engineer of the City of Stockton's engineering department.

The present fares are based upon two fare zones. The respective intrazone adult fares are 10 cents and 15 cents cash. For interzone movements, the fare is 15 cents cash. Tokens are offered at the rate of 4 for 35 cents and one token is accepted in lieu of 10 cents cash. Applicant proposes to increase the 10-cent and 15-cent intrazone cash fares to 11 cents and 17 cents, respectively. The 15-cent interzone fare would be advanced to 20 cents.

It is proposed to discontinue the sale of tokens. No change would be made in the school fare.¹

Applicant's fares were last adjusted by Decision No. 46184 of September 14, 1951, in Application No. 32291, when the present fares were authorized. It is alleged that the fares are inadequate as a result of increases in wages and other costs of operation coupled with a continued downward trend in the traffic volume. The record shows that a Federal tax of 2 cents per gallon was imposed on diesel fuel effective November 1, 1951, that the price of diesel fuel was advanced by one-half cent per gallon on January 1, 1952, and that an increase of 6 cents per hour in the wages of employees was granted effective February 21, 1952.

Studies of the financial results of operation were made by applicant's general auditor and by a senior transportation engineer of the Commission's staff. At the hearing, they submitted exhibits consisting of balance sheets, operating statements, studies of traffic flows and trends and depreciation and rate base statements. The auditor reported that applicant's books showed that operations in the year 1951 were conducted at a profit of \$1,529 after provision for income taxes. He pointed out that a 51-day interruption of service was experienced during the months of July and August 1951. He also reported that the month of January 1952 showed a profit of \$550 after income taxes.

The auditor and the staff engineer introduced forecasts of the anticipated results of operations under the present and proposed fares for a test period of 12 months ending March 31, 1953.

¹ In the original application, it was proposed to increase the present 10-cent cash fare to 15 cents, the 15-cent interzone fare to 20 cents and the token rate of fare from 4 to 35 cents to 2 for 25 cents. No change was proposed in the present 15-cent intrazone fare nor in the school fare.

In these calculations, effect was given to all known advances in the cost of operation. The figures of both witnesses show that the present fares as well as the proposed fares would return a profit. The estimated results of operation in question are summarized in the tabulation that follows:

Estimated Results of Operations Under Present and Proposed
Fares for 12 Months Ending March 31, 1953

I t e m	: Company Auditor	: Commission Engineer:	: Proposed	: Proposed :
	: Present:	: Present :	: Fares	: Fares :
	: Fares :	: Fares :	: (Amended	: (Amended :
	: App.)	: App.) :		
<u>Operating Revenue:</u>				
Passenger	\$532,200	\$594,650	\$552,900	\$622,200
Special Bus	4,300	4,300	5,000	5,000
Advertising	6,500	6,500	7,500	7,500
Other Operating Revenue	100	100	100	100
Total Operating Revenues	\$543,100	\$605,550	\$565,500	\$634,800
<u>Operating Expenses:</u>				
Equipment, Maintenance and Garage	\$106,200	\$106,200	\$105,800	\$105,800
Transportation	265,500	265,500	260,900	260,900
Traffic, Solicitation and Advertising	1,975	1,975	1,900	1,900
Insurance and Safety	30,500	30,500	28,500	28,500
Administrative and General	32,900	32,900	32,700	32,700
Depreciation	43,533	43,533	43,450	43,450
Operating Taxes and Licenses	40,875	44,060	40,150	41,150
Total Operating Expenses	\$521,483	\$524,668	\$513,400	\$514,400
Net Before Income Tax	\$ 21,617	\$ 80,882	\$ 52,100	\$120,400
Income Tax	6,227	41,100	22,000	71,800
Net After Income Tax	\$ 15,390	\$ 39,782	\$ 30,100	\$ 48,600
Rate Base	\$259,139	\$259,132	\$258,300	\$258,300
Rate of Return	5.94%	15.35%	11.7%	18.8%
Operating Ratio After Taxes	97.17%	93.43%	94.7%	92.3%
Bus Miles	1,359,534	1,359,534	1,347,500	1,347,500

The principal differences in the estimated operating results shown in the foregoing tabulation are in the forecasts of the revenues. The estimates of applicant's auditor under the present and proposed fares are \$22,400 and \$29,250, respectively, lower than the corresponding figures of the staff engineer. The differences stem from divergent views of the witnesses regarding the traffic volume anticipated in the test year. The witnesses reported that development of the revenue figures was difficult because of the unusual conditions surrounding applicant's 1951 operations. According to their testimony, the operations were resumed on August 21, 1951, following a 51-day interruption of service. In the month of October 1951, increased fares were established under Decision No. 46184, supra. Since then, the traffic volume has assumed a level lower than that which prevailed in the months of 1951 before the service temporarily ceased. This condition was attributed to the continued use by many patrons of other means of transportation which they utilized during the aforesaid 51-day period and to the fact that a certain amount of traffic usually is lost when fares are increased. The witnesses were in agreement that under these conditions the higher traffic level prevailing prior to the service interruption could not appropriately be given effect in their calculations of traffic estimates for the future.

Applicant's auditor based his calculations of the anticipated traffic volume under the present fares upon the actual number of passengers transported on weekdays, Saturdays, Sundays and holidays in the 6-month period September 1951 to February 1952. The number of passengers so developed was reduced by 3.42 percent to reflect the downward trend in traffic estimated by the auditor. Projection of the resulting figure for a period of 12 months provided the traffic volume used by the auditor for the test year under

the present fares. A number of infirmities in the auditor's calculations were developed on cross-examination. He admitted that in instances involving a lengthy service interruption followed by a fare increase a period of three months after resumption of the service usually elapsed before the traffic reached whatever level it would generally assume thereafter. He conceded that the traffic gradually was being regained in the months of September, October and November 1951 and that the number of passengers handled in those months did not reflect the full amount that ultimately would be recovered. The record also shows that the amount of traffic in the month of January was considerably lower than usual because of extraordinary rainfall during the month. The downward trend in traffic used in the auditor's calculations was shown to rest upon inadequate bases. The auditor maintained that his estimate was based upon applicant's recent actual experience and that the traffic forecast was reasonable.

The staff engineer's revenue estimates were predicated upon the average number of passengers handled on weekdays, Saturdays, Sundays and holidays in the months of November and December 1951 and February 1952. He stated that the movements in the months of September and October 1951 and January 1952 were not used in the calculations in order to avoid undue influence of the subnormal factors hereinabove indicated on the estimates for the test year. The engineer said that past studies of the effect on traffic of an interruption of service followed by a fare increase showed that whatever amount of traffic would be regained usually has been accomplished by the end of the third month after the service was resumed. According to the engineer, his analysis of passenger volume and trends since the year 1950 disclosed that the amount of traffic handled since the

operations were recommenced in 1951 had dropped to a new level. The changed conditions were given effect in his calculations.

An engineer of the City of Stockton's engineering staff introduced a series of charts and graphs dealing with traffic volume and trends for the years 1946 to 1951, inclusive. The data used in these exhibits were taken from those submitted by applicant's auditor and by the staff engineer. Briefly stated, the city engineer concluded from his exhibits that the steady downward trend in passengers prevailing since the year 1947 has been levelling off. He agreed, however, that an analysis of his exhibits indicated "there was some unusual decline in the passenger traffic after the interruption of service." The city engineer concluded from the data that applicant's estimate of the future traffic level was too pessimistic. He concluded also that the basis employed by the staff engineer would result in understatement of the traffic volume for the test year by 1.5 or 1.6 percent. It was shown, however, that the witness adjusted the traffic figures used in the latter calculations to compensate for the adverse effect of the interruption of service and of the fare increase in 1951 but did not do so for similar conditions in 1947. Other infirmities in the calculations need not be discussed. The city engineer made no attempt to develop an estimate of the anticipated traffic volume for the test year.

The record shows that the methods employed in calculating applicant's estimate of the traffic volume accord undue effect to a number of adverse conditions that ordinarily are not recurring. The revenue forecasts based thereon will not be used. Likewise, the city engineer's calculations are deficient as indicated and do not support the expressed view that the staff engineer's forecast of the traffic volume is too low. It was conceded that the methods used by the

Commission's staff heretofore had resulted in reasonably accurate forecasts of applicant's anticipated traffic level. On this record the staff engineer's traffic volume and revenue figures appear to be reasonable for the purposes of this proceeding. Ordinarily, the basing of such estimates upon a few months' experience would be viewed with disfavor. Under the unusual circumstances shown by this record, however, it is clear that past operations covering only a limited period properly could be considered in developing the forecasts.

In regard to the operating expenses, the figures submitted by applicant's auditor and the staff engineer reflect a relatively small difference. The auditor included in his expense estimates an amount equal to one percent of the annual cost of drivers' wages. Assertedly, this was intended to provide for contingencies such as overtime payments that might be necessary because of a labor shortage in the future. He admitted, however, that there was no prospect that such conditions would prevail in the near future. The amount in question will not be allowed. Most of the other differences in the operating expenses are attributable to variations in the forecasts of the number of bus miles to be operated.

The auditor estimated that a total of 1,359,534 bus miles would be operated in the test year. No supporting data were presented. An associate transportation engineer of the Commission's staff introduced a study of applicant's service. He calculated that the operations in the test year would involve a total of 1,347,500 bus miles. This mileage was based upon the current number of bus miles operated on weekdays, Saturdays, Sundays and holidays projected for a period of one year. The staff engineer's mileage figure is well supported and will be used herein. In this connection, the

engineer reported that his studies showed the amount of service now provided to be adequate for the present traffic volume. He said, however, that the off-peak weekday and the Sunday and holiday services now were at reasonable minimum levels and he recommended that applicant be required to obtain the Commission's approval before making any reductions in these particular services. Applicant raised no objection to the recommendation. It will be expected to obtain the Commission's approval before reducing the service described in Exhibit No. 16 in this proceeding.

Based upon his study of the operations, this staff engineer suggested that applicant give consideration to various changes which he said would result in better service to the public. These changes involve minor revisions in routes and in the frequency of service on certain routes.² Adoption of these service adjustments, he said, involved only a small change in bus miles which did not warrant revision of his estimate for the test year. The engineer stated that the company had informed him it was taking steps to adopt most of his suggestions and that it would give further consideration to the others. Applicant will be expected to inform the Commission within 60 days after the effective date of the order herein what action it proposes to take in these matters.

Applicant's auditor stated that although he had submitted a rate base in this proceeding "we do ask the Commission's consideration of an operating ratio method as well as a rate base in

² The engineer suggested revision of the loop at the east end of Route 3 to reduce mileage and running time and to provide 20-minute service frequency, change of service frequency on Route 2 from 15 and 30 minutes over portions of the route to 20 minutes over the entire route, extension of East Main Route to place the service within walking distance of a substantial number of homes, change schedules on Route 2 from 36-minute intervals to 30 minutes, and adjust service on Routes 5 and 6 to provide for 30-minute frequency in the middle of the day instead of the present 35 minutes.

determining fares for Stockton City Lines." The Commission repeatedly has said in rate proceedings that applicants should fully develop all available information and that in reaching its conclusions the Commission considers all available data without limitation or restriction to any single formula.

In this proceeding, applicant found it necessary to amend its original request for a fare increase to a basis that was substantially lower. The evidence of record strongly indicates that even the amended proposal was filed prematurely. As previously stated, the traffic volume for a number of months following the service interruption and the fare increase was at subnormal levels. Thus, the present fares have been in effect for a period of time free of unusual adverse influences that is entirely too short to provide a sound basis for a finding that the present fares are inadequate as alleged by applicant. Applicant's own figures of record, which gave full effect to the subnormal factors in question, show that an operating ratio of 97.17 percent after income taxes and a rate of return of 5.94 percent would be experienced if the operations were conducted in the test year under the present fares.

The staff engineer's figures, which are hereby adopted for the purpose of this proceeding, show that operations in the test year under the present fares would produce an operating ratio of 94.7 percent after income taxes and a rate of return of 11.7 percent. On this record, applicant has not established that the present fares are inadequate and that the proposed fares are necessary.

Upon consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that the increases in fares proposed by applicant have not been justified. The application, as amended, will be denied.

ORDER

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

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

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

Dated at San Francisco, California, this 29th day of April, 1952.

A. J. Morrison
President

Harold A. Hule

Thurston Patton

Ed. E. Mitchell

Commissioners

Commissioner JUSTUS F. CRAEMER, being necessarily absent, did not participate in the disposition of this proceeding.