ORIGINAL

Decision No. 47298

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ROBERT LANDIER, doing business as SAN PEDRO TRANSIT CO. to raise rates and fares for passenger motor coach service between San Pedro, City of Los Angeles, State of California, and the La Rambla and Banning Homes - Channel Heights Districts in the County of Los Angeles, State of California.	Application No. 33058
In the Matter of the Application of HIGHLAND TRANSIT, INC., a Corporation, to increase rates and fares for the transportation of passengers in the vicinity of San Pedro, City of Los Angeles, California.	Application No. 33083

Appearances

In Application No. 33058

Robert Landier, in propria persona.
George M. Stephenson and Ted S. Rafalovitch, for applicant.
Charles Boehm, for Highland Transit, Inc; H. M. Kauffman and T. M. Chubb, for Board of Public Utilities, City of Los Angeles; and Elliott P. Fagenberg, for Citizens Transit Committee of Metropolitan Los Angeles, interested parties.
Hal F. Wiggins and Glenn E. Newton, for Transportation Department, Public Utilities Commission of the State of California.

In Application No. 33083

Charles Boehm, for applicant.
Robert Landier, George M. Stephenson and Ted S. Rafalovitch for Robert Landier, doing business as San Pedro Transit Co.; H. M. Kauffman and T. M. Chubb, for Board of Public Utilities, City of Los Angeles; and Elliott P. Fagenberg, for Citizens Transit Committee of Metropolitan Los Angeles, interested parties.
Hal. F. Wiggins and Glenn E. Newton, for Transportation Department, Public Utilities Commission of the State of California.

O P I N I O N

Robert Landier, doing business as San Pedro Transit Co., and Highland Transit, Inc., a corporation, are each engaged in the operation of an urban passenger bus service within and in the vicinity of San Pedro in the Los Angeles Harbor area. By these applications, as amended, they seek authority to establish increased fares on less than statutory notice.

Public hearings of the matters were held on a consolidated record before Examiner Abernathy at San Pedro on April 15, 16, and 17, 1952. Evidence was submitted by Robert Landier and by his accountant, by the general manager, and by the local manager of Highland Transit, Inc., and by a transportation engineer of the Commission's staff. A representative of the Board of Public Utilities of the City of Los Angeles participated in the examination of the witnesses and otherwise assisted in the development of the record.[1]

Applicants allege that increases in their rates are necessary to enable them to continue in business. They state that during the past several years general business conditions in the San Pedro area have been unfavorable, that activity in the two principal industries, shipbuilding and fishing, have declined to a low ebb, and that home construction has been curtailed. They say that as a result of theso several conditions the volume of their traffic has decreased substantially and their revenues have suffered

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1 Notices of the hearings were sent by the Commission's secretary to persons and organizations believed to be interested in the proceedings. In addition notices were posted by applicants in their vehicles and were published in a newspaper of general circulation in the San Pedro area.

accordingly. Applicants also allege that during the past several years their operating costs have mounted and that notwithstanding their best efforts to effect all possible economies their operating costs now exceed their revenues. Applicant Robert Landier reported that his operations for the eleven months through November, 1951, resulted in revenues of $65,151, expenses of $76,906, and a net operating loss of $11,755. Highland Transit, Inc. reported that its 1951 operations resulted in total revenues of $50,298, expenses of $50,474 before any allowance for administrative salaries, and a net loss of $176.

Applicants seek to improve their earnings by increasing their fares. Their present cash fares are 10 cents a ride. Ticket fares of 5 cents a ride for children attending primary and high schools are provided on the basis of the sale of 30-ride tickets for $1.50. Applicants propose to increase their cash fare to 12 cents a ride and to increase the school ticket fares to 7½ cents a ride by increasing the price of the tickets to $2.25. In addition applicant Robert Landier seeks to divide one of his routes into two fare zones, to assess the proposed 12-cent fare for intrazone service and to assess a cash fare of 15 cents for interzone service. The proposed ticket fares for school children would apply both for interzone and intrazone service.[2]

[2] Applicants also sought to assess a charge of 5 cents for transfers but amended their proposals at the hearings to exclude this charge.

The operating results which applicants expect to achieve during the coming year should the sought fares be authorized are set forth in Table 1 below:

Table 1

Estimated Revenues, Expenses and Operating Results
Year Ending April 30, 1953

	Robert Landier	Highland Transit, Inc.
Revenues	$ 70,318	$ 50,176
Expenses	65,229	51,027
Net Operating Revenues	$ 5,089	$ (851)
Income Taxes	(a)	-
Net Revenues (after taxes)	(a)	$ (851)
Rate Base	$ 51,370	$ 15,081
Operating Ratio	92.8% (b)	102.1%
Rate of Return	9.9% (b)	-

(____) Indicates loss

(a) Not calculated.
(b) Before allowance for income taxes.

The evidence which was submitted by the Commission engineer includes analyses of applicants' traffic, financial data for various periods, and forecasts of operating revenues and expenses for the future. Operating results for the past seven years, as developed by the engineer from applicants' reports and records, are set forth in the margin below.[3] The engineer calculated that under present fares the operations of Robert Landier during the coming year would result in a loss of $2,800, and those of Highland Transit, Inc. would result in a profit of $820. Corresponding operating ratios would be 105 percent and 98.1 percent, respectively. The

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[3] Results of operations, 1945 through 1951:

Robert Landier

Year	Operating Revenues	Operating Expenses	Net Operating Revenues	Operating Ratios
1945	$ 49,666	$ 46,090	$ 3,576	92.8%
1946	59,091	69,928	(10,837)	118.3%
1947	53,179	73,332	(20,153)	137.9%
1948	43,974	52,281	(8,307)	118.9%
1949	63,561	69,633	(6,072)	109.6%
1950	91,796	101,586	(9,790)	110.7%
1951	70,080	85,399	(15,319)	121.9%

Highland Transit, Inc.

Year	Operating Revenues	Operating Expenses	Net Operating Revenues	Operating Ratios
1945	$ 60,348	$ 59,856	$ 492	99.2%
1946	89,581	107,162	(17,581)	119.6%
1947	68,017	73,344	(5,327)	107.8%
1948	60,873	61,568	(695)	101.1%
1949	61,577	57,624	3,953	93.6%
1950	54,249	54,678	(429)	100.8%
1951	50,298	50,474	(176)	100.3%

(_____) Indicates loss

engineer's estimates of results under the sought fares are set forth in Table 2 below:

Table 2

Estimated Revenues, Expenses and Operating Results
Year Ending April 30, 1953

	Robert Landier	Highland Transit, Inc.
Revenues	$ 70,030	$ 47,900
Expenses	59,810	41,610
Net Operating Revenues	$ 10,220	$ 6,290
Income Taxes	(a)	2,060
Net Revenues (after taxes)	(a)	4,230
Rate Base	$ 48,720	$ 11,870
Operating Ratio	85.3% (b)	91.2%
Rate of Return	21.0% (b)	35.9%

(a) Not calculated.
(b) Before allowance for income taxes.

In addition to the foregoing estimates the Commission engineer submitted figures to show earnings which would be realized under various modifications of applicants' fare proposals. These modifications were developed as alternatives to the fares sought by applicants and in each case would result in lower earnings than would the sought fares.

It will be noted from the foregoing summary of the principal data of record that the evidence is clear that applicants' revenues under their present fares are not sufficient to meet their costs of operation. Increases in the fares appear necessary in order that applicants' services for the public may be preserved. The matters to be decided are whether the full amount of the increases which applicants seek is justified.

On the basis of applicants' estimates of the results to be attained under the sought fares, it appears that the expected earnings would not be excessive. The engineer's estimates portray a somewhat different picture, however. The main differences between the estimates of applicants and of the Commission engineer relate (a) to vehicle maintenance and supervisory expense in the case of both applicants and (b) to revenues and depreciation expense also in the case of Highland Transit, Inc. In each case the estimates of the engineer with respect to the items named are the lower.

The vehicle maintenance expense estimates of Robert Landier represent primarily an expansion to an annual basis of the vehicle maintenance costs which were incurred during the first two months of 1952. The estimates of Highland Transit, Inc. were drawn from experience of an affiliated company which is in the business of selling and leasing motor coaches. The corresponding figures of the engineer were developed largely upon the mileage of operation expected during the coming year with consideration being given to expense experience found to be usual or normal for similar carriers operating vehicles of similar type and age. The supervisory expense estimates of both applicants reflect their appraisal of the costs of supervising their businesses; those of the engineer are based upon supervisory costs of similar carriers and represent the costs which he deems would be normal for the services involved. The revenue estimate of Highland Transit, Inc. was explained by the company's general manager as representing the maximum amount which he expected for the ensuing twelve months. The engineer's estimate was based largely upon the company's revenue experience since January of this year when a substantial revision and reduction of its operating schedules was made.

The engineer's estimate of the depreciation expense applicable to the operations of Highland Transit, Inc. was based upon the company's book records. In the past the company has followed the practice of accruing depreciation reserves on an abnormal or accelerated basis. As a consequence its books now show that the greater part of its operating properties are fully depreciated and that as to these properties no further depreciation expense is applicable. The general manager of Highland Transit, Inc. undertook to revalue the depreciated properties and to show that further charges to depreciation expense on those properties should be considered in determining the revenue needs of the company. He said that the properties involved are being used regularly in the company's operations, that the company has incurred a deficit of $26,895 from its seven years of operations in the San Pedro area, and that it has not been able to earn its depreciation charges, notwithstanding the entries in its depreciation accounts.[4] For these reasons he believed that the adjustment of the depreciation is proper. As a result of the adjustment the depreciation expense estimate of Highland Transit, Inc. exceeds that of the Commission engineer by $3,570. The company's rate base figure was also increased by $2,380 to give effect to the related adjustment which would follow in the property accounts.

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[4] The costs of the properties used in the company's operations were reported as follows:

Land	$ 4,048
Structures	9,981
Vehicles	24,989
Garage Equipment	4,097
Furniture and Fixtures	167
	$43,282

As between the estimates of applicants and of the Commission engineer it appears that those of the engineer are generally the better founded and more representative of the results which applicants would realize from establishment of the sought fares. Applicants' estimates of vehicle maintenance expense appear excessive in the light of other data which were submitted by applicants themselves. In the case of Robert Landier the estimate is 6 percent or $1,100 more than the $15,476 spent for maintenance during the past year notwithstanding the fact that under present operating schedules the mileage of bus operation will be 14 percent or 27,000 miles less during the coming year than it was during the past period. Similarly the maintenance expense estimate of Highland Transit, Inc. is 25 percent greater than the expense which was actually incurred during the past year even though the scheduled mileage is but 75 percent of that operated during the twelve months through February, 1952.[5]

The supervisory expense estimates of both applicants reflect to a substantial extent the valuations placed by Robert Landier and by the general manager of Highland Transit, Inc. on services which they themselves perform in the operation of their respective businesses.[6] Although the Commission has not prescribed

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[5] The general manager of Highland Transit, Inc. undertook to establish that his company's maintenance expense for the past year was unduly low because the company had received donations of repair parts from its affiliate. However, he did not offer evidence to show the extent that the maintenance expense for the year was affected by the donations.

[6] The charges in question against Highland Transit, Inc. are for payments of that company to an affiliated company for management and accounting services. The general manager said that he draws no compensation for his services directly from Highland Transit, Inc.; instead he is paid by the affiliate. In conjunction with his work for the affiliate he provides managerial services for Highland Transit, Inc. and for certain other bus companies.

any limitations on the amounts that officers may charge against a carrier's operations for the services which they perform, the law requires that the charges must be reasonable for the purpose of rate-fixing. In proceedings involving fare increases it is particularly incumbent upon applicant carriers to establish the reasonableness of officers' or owners' salaries when it is evident that payment to officers or owners result in abnormal charges for supervision. The charge for Robert Landier's salary was based upon a somewhat vague estimate of the time he devotes to the operation of the business, and that of Highland Transit, Inc. was not supported by other than the estimate of the general manager. In neither case does it appear that applicants' estimates of supervisory expense should be accepted without additional evidence to establish the propriety thereof.

The proposed revaluation of the vehicles of Highland Transit, Inc. would involve the taking of depreciation on properties which have been fully depreciated on the books of the company. On various occasions where the Commission has had before it matters involving depreciation charges on properties which have been fully depreciated by the utility, it has said that further depreciation must not be allowed as an operating expense.[7] That rule will be followed in disposing of this proceeding.

On the basis of the figures in Table 2, above, it appears that earnings as great as those which would accrue to Robert Landier and to Highland Transit, Inc. under the sought fares are neither

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7 Mare Island Ferry, 44 C.R.C. 802, 807; Southern California Freight Lines, 45 C.R.C. 233, 239; Vallejo Electric Light and Power Company, 45 C.R.C. 254; California Street Cable Railway Company, 45 C.R.C. 384, 391; and San Diego Electric Railway Company, 47 Cal. P.U.C. 721,724.

necessary nor justified. From a revenue standpoint it appears that a fare structure which was proposed by the Commission engineer in the alternative would be conducive to more reasonable results. Under this proposal the zone basis of fares urged on behalf of Robert Landier would be authorized and present 10-cent fares for adults would be increased to 11 cents and 15 cents for intrazone and interzone service, respectively. No change would be made in fares for school children. The engineer's estimates of results under these alternative fares are set forth in the following table:

Table 3

Estimated Revenues, Expenses and Operating Results
Year Ending April 30, 1953.

	Robert Landier	Highland Transit, Inc.
Revenues	$ 67,600	$ 44,910
Expenses	59,700	41,520
Net Operating Revenues	$ 7,900	$ 3,390
Income Taxes	(a)	1,110
Net Revenues (after taxes)	(a)	2,280
Rate Base	$ 48,720	$ 11,870
Operating Ratio	88.3% (b)	94.9%
Rate of Return	16.2% (b)	19.2%

(a) Not calculated.
(b) Before allowance for income taxes.

We turn now to consider briefly the fare zone proposal of Robert Landier. Service is provided by Robert Landier over two routes which are designated as La Rambla Line, and the Banning Homes-Channel Heights Line, respectively. The La Rambla Line was described as a loop operation involving a total distance of five miles from point of beginning and return thereto. The round-trip mileage over the

Banning Homes-Channel Heights Line was stated as being 9.75 miles, almost twice that over the La Rambla Line. The authority which is sought is to divide the longer line into two zones with the division between the zones being established at a point slightly more than two miles from the downtown terminus of the line. It was stated that a more equal division of the line would not be practicable from an operating standpoint because it would result in unreasonable discrimination between passengers due to the route which is followed. By this division Robert Landier seeks to attain greater equality in his charges by relating them more nearly to the miles of operation involved. He alleged moreover that service to the farther of the proposed zones is more costly to provide inasmuch as it involves travel over hilly terrain and poorly paved streets. With a minor exception involving relocation of the division of the zones at a point two blocks farther from the downtown terminus than that proposed, it appears that the sought fare zones are reasonable. Robert Landier assented to the relocation of the zone division point in order that it might coincide with a more natural division of the territory. With this adjustment the sought zones will be authorized.

Upon careful consideration of all of the facts and circumstances of record the Commission is of the opinion and finds that to the extent provided in the order which follows the fares which are sought by applicants in this proceeding and the modified zone proposal of Robert Landier have been shown to be justified. To this extent the applications will be granted. Because of applicants' evident need for additional revenues their request for authority to establish the increased fares on less than statutory notice will be granted also.

Applicants' showings herein have been based upon the costs of maintaining present operating schedules. The record shows that prior to establishing present schedules the early part of this year both applicants effected sharp reductions in their service. Since it appears that the fares which are hereinafter authorized will provide ample revenues to meet the anticipated costs of operation, it appears that there should be no further reduction in service without the express approval of the Commission. The order which follows will so provide.

The fare increase authority hereinafter granted will apply to applicants' local fares, to the joint fares which they maintain between themselves, and to the joint fares which they maintain with San Pedro Motor Bus Company, a bus company operating wholly within the limits of the City of Los Angeles and not subject to the Commission's jurisdiction. Applicants are hereby cautioned that increases which are authorized in the joint fares should be established concurrently with the increases in their local fares in order that patrons of the joint service be not unduly favored over patrons of the local service.

O R D E R

Public hearing of the above-entitled applications having been held, the evidence received therein having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Robert Landier, doing business as San Pedro Transit Co., and Highland Transit, Inc. be and they are each hereby authorized to amend their tariffs Cal. P.U.C. No. 4 and Cal. P.U.C. No. 8, respectively, on not less than five (5) days' notice to the Commission and to the public, to establish local and joint fares to the extent provided in Appendix "A" attached hereto and by this reference made a part hereof.

IT IS HEREBY FURTHER ORDERED that, in addition to the required filing of tariffs, applicants shall give not less than five (5) days' notice to the public by distributing and posting in their buses a printed explanation, or, if feasible, a small map of the areas involved, or both, showing the effect of the fare increases.

IT IS HEREBY FURTHER ORDERED that until otherwise authorized by further order of the Commission applicants shall, in assessing and collecting the fares which are set forth in Appendix "A" attached hereto, maintain scheduled bus service not less frequent than that specified in the schedules received as Exhibits Nos. 4 and 5 of record in Application No. 33058, and Exhibit 4 in Application No. 33083.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after the date of this order.

IT IS HEREBY FURTHER ORDERED that except as otherwise provided herein Application No. 33058 of Robert Landier, doing business as San Pedro Transit Co., be and it is hereby denied.

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

Dated at San Francisco, California, this 17th day of June, 1952.

R. T. Mitchell
President

Justus F. Craemer

Harold P. Hulse

Kenneth Potter

Peter E. Mitchell
Commissioners

APPENDIX "A" TO DECISION NO. 47298

Authorized local and joint fares between points on the lines of Robert Landier, doing business as San Pedro Transit Co., Highland Transit, Inc., and San Pedro Motor Bus Company. (See Note 1.)

Between points south or southerly of the intersection of Gaffey Street by Basin Street; also between points on the Banning Homes-Channel Heights Line of Robert Landier generally northerly or westerly of said intersection:

Adult, per one-way ride	11 cents
Child going to or returning from primary or high school, per one-way ride...............	5 cents (See Notes 2 and 3.)

Between points south or southerly of the intersection of Gaffey Street by Basin Street on the one hand and points on the Banning Homes-Channel Heights Line of Robert Landier generally northerly or westerly of said intersection on the other hand:

Adult, per one-way ride	15 cents
Child going to or returning from primary or high school, per one-way ride...............	5 cents (See Notes 2 and 3.)

Note 1. The authority granted by this decision pertains to San Pedro Motor Bus Company only with respect to joint fares maintained with said company by Robert Landier and Highland Transit, Inc.

Note 2. Subject to the purchase of a 30-ride book of tickets for $1.50.

Note 3. Subject to tariff provisions specifying an additional charge of 1 cent for transfer between lines.

(End of Appendix)