ORIGINAL

Decision No. 47412

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of BAKERSFIELD TRANSIT CO. requesting authority to increase certain of its rates of fare.	Application No. 33120

Appearances

Curtis Darling and W. M. Mickelberry, for applicant.

C. L. Gunn, City Attorney, Charles Carlstroem, City Manager, and Frank Sullivan, Mayor, for the City of Bakersfield, interested party.

Pauline M. Colahan, in propia persona, interested party.

Glenn E. Newton, William R. Peters, and Hal F. Wiggins, for the Commission's staff.

O P I N I O N

Bakersfield Transit Company is engaged in the operation of an urban passenger bus service within the City of Bakersfield, and between Bakersfield, East Bakersfield, Oildale, and adjacent areas. By this application, as amended, it seeks authority to establish increased fares.

Public hearing was held before Examiner Bryant at Bakersfield on May 15, continuing through May 16, 19 and 20, 1952. Advance notices of the hearing were posted in applicant's vehicles, published in a newspaper of general circulation in the area served, and sent by the Commission's secretary to interested persons and organizations.

Applicant introduced evidence through two witnesses. Two engineers of the Commission's transportation staff offered exhibits relating to the company's finances, operations and services.

Public witnesses testified concerning service matters. Counsel for the Commission's staff and representatives of the City of Bakersfield participated in the proceeding and assisted in the development of the record.

Applicant's buses are operated over ten lines or routes which radiate generally from the central business district of Bakersfield. A fare of 10 cents applies between any two points on any one line. Transfers to the other lines are issued at a charge of 5 cents, except that transfers are issued without charge for passage of students to and from school. With the exception of the student transfer privilege, the fares for adults and children are the same. By this application Bakersfield Transit Company seeks authority to increase the basic fare from 10 cents to a fare of 15 cents cash or a 12½-cent token. Under applicant's proposal the tokens would be sold at the rate of eight for $1.00. There would be no change in the transfer charges or other provisions.[1]

Applicant granted an increase in wages of drivers and mechanics effective February 3, 1952, and is committed to an additional increase of five cents an hour effective October 1, 1952. It alleges that operating costs will exceed revenues if the present fares

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[1] The present and proposed fares are set forth below:

	Present	Proposed
Single-line, one-way fare:		
Cash	10¢	15¢
Token	None	12½¢ *
Interline Transfer:		
School	Free	Free
Other than school	5¢	5¢
Children under 5 years accompanied by guardian	Free	Free

* (8 for $1.00)

remain in effect. According to the testimony, applicant has effected all possible economies and nothing short of a fare increase will relieve its financial distress.

The company's annual reports from 1942 to date were incorporated into the record by reference. The income statements for the past five years, as summarized in an exhibit, are shown in the following table:

Table 1

Income Statements

Item	1947	1948	1949	1950	1951
Revenue					
Passenger	$414,856	$419,228	$435,077	$436,618	$405,827
Special Bus		160	25	135	500
Other	2,560	4,262	4,162	4,296	4,884
	$417,416	$423,650	$439,264	$441,049	$411,211
Expenses					
Oper. & Maintenance	$277,955	$324,195	$345,833	$357,430	$345,489
Depreciation	24,894	22,621	30,799	34,287	33,585
Amortization	125	503	10	10	10
Oper. Taxes & Licenses	27,115	30,934	33,229	35,506	33,005
	$330,089	$378,253	$409,871	$427,233	$412,089
*Operating Ratio	79.1%	89.3%	93.3%	96.9%	100.2%
Net Operating Income	$ 87,327	$ 45,397	$ 29,393	$ 13,816	$ (878)
Other Income (Net)	2,654	671	(2,470)	(5,047)	(4,934)
Net Before Income Taxes	89,981	46,068	26,923	8,769	(5,812)
Income Taxes	36,335	18,526	7,547	2,872	-
Net Income	53,646	27,542	19,376	5,897	(5,812)

(____) Indicates Red Figure or Loss

* Calculated

As may be observed from the table, applicant reported for the year 1951 a net loss of $5,812. For the coming year, according to the company witnesses, the loss would be about $38,000 if there were no change in fares. The Commission engineer made a substantially different forecast. The two estimates, as submitted by the witnesses, are shown below:

Table 2

AT PRESENT FARES
Estimated Results for Rate Year Ending May 31, 1953

Item	Applicant	Commission Engineer
Operating Revenues		
Passenger	$ 391,290	$ 382,080
Special Bus	400	-
Other	4,600	5,400
Total Operating Revenues	$ 396,290	$ 387,480
Operating Expense		
Equipment Maintenance & Garage	$ 103,196	$ 88,840
Transportation	194,798	180,410
Traffic	3,050	1,470
Insurance and Safety	25,550	19,710
Administrative	38,600	27,900
Depreciation	32,263	26,950
Operating Taxes and Licenses	36,814	37,490
Total Operating Expenses	$ 434,271	$ 382,770
Net Before Income Tax	$ (37,981)	$ 4,710
Income Tax	$ 25	$ 420
Net After Income Tax	$ (38,006)	$ 4,290
Operating Ratio *	109.6%	98.9%
Rate Base	$ 285,460	$ 260,820
Rate of Return *	None	1.6%

(____) Indicates Red Figure or Loss

* After provision for income tax.

Upon the basis of either estimate it is evident that the revenues from present fares will not be sufficient to sustain the company. It is unnecessary, therefore, to discuss in detail the differences in the foregoing estimates. Attention will be directed to the operating results to be anticipated under higher fares. Estimates of future revenues and expenses under the fares proposed by applicant were submitted by company witnesses and by a transportation engineer of the Commission's staff. The engineer, in addition, offered estimates based upon various alternate fare structures. The engineer's figures, moreover, were submitted upon two bases. The first assumes continuance of the present routes and schedules; the second assumes adoption of a "possible reduced service plan".[2] It is only in connection with the fares proposed by applicant and with continuance of the present service that the estimates as submitted by the company and by the staff may be compared. These estimates are summarized in Table 3.

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[2] Service matters will be discussed hereinafter.

Table 3

AT PROPOSED FARES
Estimated Results for Rate Year Ending May 31, 1953

Item	Applicant	Commission Engineer
Operating Revenues		
Passenger	$ 479,142	$ 472,726
Special Bus	400	-
Other	4,600	5,400
Total Operating Revenues	$ 484,142	$ 478,126
Operating Expenses		
Equipment Maintenance & Garage	$ 103,196	$ 88,840
Transportation	194,798	180,410
Traffic	3,050	1,470
Insurance and Safety	25,550	19,710
Administrative	38,600	27,900
Depreciation	32,264	26,950
Operating Taxes and Licenses	38,948	39,796
Total Operating Expenses	$ 436,406	$ 385,076
Net Before Income Tax	$ 47,736	$ 93,050
Income Tax	$ 21,232	$ 56,536
Net After Income Tax	$ 26,504	$ 36,514
Operating Ratio *	94.5%	92.4%
Rate Base	$ 285,460	$ 260,820
Rate of Return *	9.3%	14.0%

* After provision for income tax.

The estimates of operating revenue, it may be observed, differ by only $6,016, or slightly more than one percent. The company figure is based upon a fixed percentage reduction in the number of riders; the engineer's figure is based upon what appears to be a more detailed analysis of the riding trend. The engineer's revenue estimate, for purposes of this proceeding, is more favorable to applicant's cause than is the figure submitted by the company.[3]

With reference to expenses, the company estimate exceeds that of the Commission's staff by some 13 percent. The difference is more than $51,000. This total is comprised of many items. Vehicle maintenance, for example, accounts for a variance of some $14,000. It appears that the company witness developed his maintenance figure from an estimate of the cost per mile of maintaining (a) gasoline buses, and (b) diesel buses, multiplied by the number of miles expected to be run by vehicles of each class during the rate year. By this method any error in the cost per mile would be reflected directly in the result. The Commission engineer adhered more closely to the company's recorded maintenance expenses for the past year, making adjustments for wages to be paid during the rate year, for miles to be operated by vehicles of each class, and for relative ages of the vehicles.[4]

Similarly, the company's estimate of transportation expenses for the coming year exceeds the staff figure by more than $14,000. The principal item in this account is drivers' wages.

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[3] Applicant determined that three percent fewer passengers were carried in the first four months of 1952 than in the corresponding period in 1951. Upon this basis it forecast that at present fares three percent fewer passengers would be carried in the rate year than were carried in the twelve months ending with May, 1952; and it estimated that the proposed higher fares would cause a further 10 percent deflection in patronage. The engineer's estimate was based upon analysis of past and present riding, with due consideration for the prevailing trend. He applied a slightly lower deflection figure than did the company, but developed, nevertheless, a lesser number of passengers.

[4] The engineer's estimate is about $2,000 below the maintenance expense incurred in the past year; the company estimate exceeds last year's expenses by more than $12,000.

Both witnesses used identical rates of pay, but by their separate methods arrived at a substantial difference in the number of driver-hours. The company witness developed his estimate from the existing schedules, with allowance for driving time, relief time, split runs, and over-time. The Commission engineer used the company's actual payroll record. It is not entirely clear why the two methods should produce materially different results, but it seems evident that the company witness based his estimate upon a greater number of drivers' hours than are reflected on the payroll accounts.[5]

There is a difference of some $5,800 in the estimates for insurance and safety expense. The company witness allowed, in addition to the current insurance premium rate, an amount for which the company might be liable, under retrospective provisions of the insurance contract, in the event of an unfavorable experience.[6]

The estimates of administration expense differ by $10,700. The greater part of this difference relates to the president's salary of $6,000, which was included by the company witness and excluded by the engineer. The company witness said that the president devotes some time to the affairs of applicant, but he had no information as to the amount of time or the duties performed. The engineer testified that the president's salary should be excluded as nonoperative payroll. Disregarding the president's salary, either estimate substantially

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5 The Commission engineer's estimate of transportation expense for the rate year is about $3,500 less than the amount incurred by the company in the past year. The company's forecast exceeds its own experience figure by nearly $11,000.

6 The engineer's estimate of insurance and safety expense is about $900 greater than the amount recorded by the company for the past year. The company's estimate exceeds the experience record by about $6,700.

corresponds to the present level of expense being incurred by the company for administration. The company estimate, however, provides for some increase in almost every administration account.

With respect to the foregoing forecasts, it is reasonably evident that some of the expense estimates submitted by the company witness are greater than is necessary or reasonable. Comparison may be made with the recorded expenses for the twelve months ending with March 31, 1952. For the future rate year there will be definite and known increased costs for wages and other items, but contrariwise there will be economies resulting from recently reduced route mileages, from a reduction in office personnel, and from substitution of diesel buses for some of the aged gasoline buses. The increases and reductions would tend to be largely offsetting. Excluding depreciation expense, which will be referred to hereinafter, the total operating expenses for the future rate year, as estimated by the Commission engineer, differ from those actually incurred in the past year by less than one-half of one percent. Applicant's estimate, on the other hand, exceeds the expenses of the past year by more than 12 percent. The conclusion seems inescapable that applicant's witness has overstated the expense forecast.

The difference in the estimates of depreciation expense, although less in amount than some of the others, requires particular explanation. The company uses in its operation 27-passenger gasoline-powered buses and 36-passenger diesel-powered buses. It has depreciated the former on the basis of a six-year life, and the latter on the basis of an eight-year life. The Commission engineer predicated his estimate of depreciation expense for the rate year upon vehicle-lives of seven years for the gasoline vehicles and ten years for the diesel vehicles, extending the undepreciated balance upon a straight line, remaining-life basis. The company objected strongly to the engineer's method of basing depreciation expense for the rate year upon changed vehicle lives, combined with the remaining-life theory. Applicant introduced a supplementary exhibit to demonstrate that the engineer's method results in a lesser depreciation allowance for the particular rate year in question than would have followed from consistent recognition of either the six-and-eight-year lives, or the seven-and-ten-year lives.

Depreciation charges necessarily must be re-examined from time to time. The estimation of remaining life of vehicles involves judgment as to the future effect of wear and tear, obsolescence, and public requirements. The remaining life straight-line depreciation method, as used by the engineer, has the effect of spreading the cost of the vehicles, less depreciation reserve and net salvage, over their remaining life. This method tends toward correction of any under-accruals or over-accruals to the depreciation reserve. That the application of the method in a given instance may result in somewhat lower depreciation expense for a particular rate year than would the use of some other formula is not a valid objection to the method nor to its adoption in this proceeding.

As has been hereinbefore indicated, the company's expense estimates appear to be excessive in several respects. The estimates of future revenues and expenses as submitted by the Commission's staff were better substantiated than were those offered by the company. Upon careful consideration and analysis of all of the evidence it is concluded that the staff estimates of revenues and expenses should be adopted for purposes of this proceeding.

The rate base estimates as set forth in Table 3 differ by $24,640, or by about nine percent. This difference is occasioned almost entirely by the variation in the amounts allowed by the two witnesses for materials and supplies. The company's figure for this item is $40,000; the engineer's figure is $16,000. Both of these figures rest upon judgment. Neither was based upon an inventory of the property. It appears that the company maintains no current inventory of its materials and supplies, and that no physical inventory has been taken for about a year. The engineer indicated that his judgment figure was based in large part upon the investment in materials and supplies maintained by similar companies. Applicant's witness declared that Bakersfield Transit Company, by reason of its distance from the sources of supply, must maintain a larger inventory than would be required by similar companies operating in or near the metropolitan areas. The record affords little basis for selecting one judgment estimate or excluding the other. A figure midway between the two rate bases - i.e. $273,140 - will be adopted as the rate base to be used herein.

Upon the basis of the engineer's forecast the fares proposed by the company would produce a net income, after taxes of $36,514, resulting in a rate of return of 13.4 percent on the modified rate base. The operating ratio would be 92.4 percent. These earnings appear to be somewhat greater than is reasonable or justified under the circumstances.

Of the numerous alternate fares suggested by the Commission engineer, a basis of 12 cents cash, with no provision for tokens, and with no charge for transfers, appears to be the most reasonable and suitable.[7] This fare plan may be modified to the extent of retaining without change the present 10-cent fare for students

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[7] Applicant objected to free transfers as being subject to abuse, but this is an objection which may be met by proper supervision and operating practices.

traveling to and from schools. This plan will result in a reduction in fares for those present riders who find it necessary to purchase transfers. From the evidence of record it is concluded that this revised fare basis may reasonably be expected to produce operating results as follows:

Table 4

AT ALTERNATIVE FARES
Estimated Results for Rate Year

Operating Revenues	
Passenger	$ 418,983
Other	5,400
Total Operating Revenues	$ 424,383
Operating Expenses	383,707
Net Before Income Tax	$ 40,676
Income Tax	14,586
Net After Income Tax	$ 26,090
Operating Ratio *	93.9%
Rate Base	$ 273,140
Rate of Return *	9.6%

* After provision for income tax.

For the purpose of this decision we hereby adopt the operating results and rate base as set forth in Table 4, and hereby find a rate of return of 9.6 percent on a rate base of $273,140, when considered in relationship to an operating ratio of 93.9 percent after income taxes, to be fair and reasonable. Upon careful consideration of all of the evidence of record the Commission is of the opinion and finds as a fact that the increased fares which are set forth in the order which follows are justified. To this extent the application will be granted. In other respects it will be denied.

There remain for consideration certain matters of routes and service. In December, 1951, Bakersfield Transit Company was authorized to make, and did thereafter make, certain route changes.[8] One of the revisions involved the discontinuance of service along El Tejon Avenue and Woodrow Avenue west of Schofield Drive in Oildale. This change reduced the round-trip mileage on Route 6 from 14 miles to 13.3 miles. At the hearings in the instant proceeding residents of the affected area urged that this service be restored. An engineer of the Commission's staff testified concerning service in this area, among others. From the record it is clear that restoration of service to the area west of Schofield Drive in Oildale cannot reasonably be required at the present time. Route 6 is now operated on a 30-minute headway. The length of the route is such that any extension would necessitate either the addition of a bus and driver or a lengthening of the headway. Either alternative would place an undue burden upon residents of other areas. Bakersfield Transit Company is advised, however, that the establishment of service along El Tejon Avenue and Woodrow Avenue, west of Schofield Drive, is to be reconsidered whenever it appears, by reason of reroutings, reschedulings, or otherwise, that such service can be performed without unreasonably burdening the residents of other areas served by the company.

The "possible reduced service plan", hereinbefore referred to, was submitted by the Commission engineer as a means of increasing the net operating income of the company. This plan contemplates the reduction of frequency on Routes 3 and 10 from 30-minute intervals to 60-minutes between schedules, the discontinuance of Route 9, and the revision of Routes 4 and 7. If the reduced service plan were adopted

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8 Decision No. 46597 dated December 28, 1951 in First Supplemental Application No. 32568. The decision recites that the changes, according to applicant, would result in safer operation, better maintained schedules and lower operating costs.

in conjunction with the 12-cent fare it appears that the net difference in earnings attributable to the service reduction would be about $2,840. This amount is insufficient to affect the general fare level. No reduction in service will be authorized on this record.

<u>O R D E R</u>

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

IT IS HEREBY ORDERED that applicant 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:

(a) Increase its present one-way fare from 10 cents to 12 cents, except as otherwise provided in subparagraph (c) below.

(b) Provide for the issuance of transfers, upon request, entitling the passenger to one continuous trip in the same general direction over and upon the portion of its lines not reached by the originating bus, said transfers to be issued without charge upon payment of the one-way fare.

(c) Continue in effect without change the one-way fare of 10 cents for the passage of school children under 18 years of age to and from school.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 33120, as amended, 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 30th day of June, 1952.

R. J. [illegible] President

Harold P. Hulz

Kenneth Potter

Pete E. Mitchell

Commissioners

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