

**ORIGINAL**Decision No. 47442

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
 PEERLESS STAGES, INCORPORATED, )  
 requesting authority to increase ) Application No. 33466  
 certain of its rates of fare, and )  
 for an immediate interim increase )  
 thereof. )

John F. Balaam, for applicant.  
T. A. Hopkins, for the Transportation Department,  
 Public Utilities Commission.

O P I N I O N

Peerless Stages, Incorporated, is a passenger stage corporation operating between Oakland and San Jose, Santa Cruz, Palo Alto, and intermediate points. By this application, as amended, it seeks authority to increase its passenger fares and express rates by 20 per cent on less than statutory notice. An immediate ex parte 10 per cent interim increase is also requested.

The application was filed on June 6, 1952, and a public hearing was held in San Francisco before Commissioner Mitchell and Examiner Gillard on June 20, 1952. In view of this prompt action taken by the Commission, the request for an interim increase will be considered merged with the evidence produced at the hearing.

Applicant's existing passenger fares are constructed on mileage blocks as follows:

Rates Per Mile (in cents) of Fares

<u>Miles</u>	<u>One-Way</u>	<u>Commute</u>	<u>Round Trip</u>
0 to 25	2.5	2.0	180 per cent of one-way fares
25 to 50	2.45	1.96	
50 to 100	2.4	1.92	

It is proposed to increase these fares by 20 per cent, except that resulting fares of less than 35 cents will be increased to the next highest 0 or 5, and fares in excess of 35 cents which end in a fraction will be increased to the next nearest cent. Applicant presented no evidence concerning the effect of this upward "breakage" adjustment.

Applicant advanced four reasons as the bases for the proposed increases. Firstly, a new wage contract with its drivers which provides (subject to the approval of the Wage Stabilization Board) a three-step increase effective May 1, 1952, December 1, 1952, and December 1, 1953 estimated to increase wages (and additional compensation insurance and social security taxes) over their present levels by 10.21 per cent, 15.15 per cent, and 25.10 per cent, respectively. Secondly, a prospective wage increase to its garage mechanics. The existing contract has expired, but applicant has made no new offer as yet. Thirdly, a prospective increase in rental for terminal facilities leased from Pacific Greyhound Lines. The existing contract has expired, but a new agreement has not been executed. Applicant expects a 20 per cent increase in this item. Fourthly, increased costs in shop materials, parts and supplies. The only evidence submitted on this point was the general statement that such costs had increased. It was estimated that these costs plus the mechanics' wages together would increase 10 per cent.

The foregoing discloses that the reasons advanced for items two, three and four, above, are speculative and without sufficient existing factual basis. Fare increases will not be authorized upon such evidence.

Applicant submitted an operating statement for 12 months ending April 30, 1952 which disclosed net income, before income taxes, of \$11,166.37. Applicant claimed, however, that for the four

months since January 1, 1952, a loss of \$865.55 had been suffered. A Commission engineer submitted an exhibit showing operations for 12 months ending February 29, 1952. This disclosed net income, before income taxes, of \$24,765. The engineer selected this period because it did not reflect the abnormal conditions existing in the Poerless operations in March and April, 1952, by reason of the Pacific Greyhound Lines strike. Aside from the differences caused by divers base periods, applicant's net figure was less mainly because of the inclusion in expense of (a) an unrecorded insurance premium of \$10,514, and (b) \$4,157 more for depreciation.

Applicant and the Commission engineer also produced forecasts of the operation under present and proposed fares for a future 12-month period. The applicant annualized its forecasts as of the various dates the wage increases become effective. The Commission engineer selected June 30, 1953 as the end of his forecast year, and submitted alternatives to reflect the changing wage picture. We will first consider the two forecasts after annualizing the first wage increase which is effective retroactively to May 1, 1952.

Estimated Results of Operations  
For 12-Month Period  
Under Present and Proposed Fares

	<u>Applicant</u>		<u>Commission Engineer</u>	
	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
<u>Revenues</u>				
Passenger	\$497,345	\$566,974	\$468,700	\$543,800
Charter	60,000	60,000	60,000	60,000
Express	19,967	22,762	25,800	25,800
Other	82	94	100	100
Total	<u>\$577,394</u>	<u>\$649,830</u>	<u>\$554,600</u>	<u>\$629,700</u>

<u>Expenses</u>				
Maintenance	\$131,595	\$131,595	\$119,200	\$119,200
Transportation	234,475	234,475	234,200	234,200
Station	21,760	21,760	20,400	22,900
Traffic & Adv.	14,611	14,611	16,000	16,000
Ins. & Safety	37,723	37,723	36,700	36,700
Adm. & Gen'l.	44,335	44,335	42,600	42,600
Depreciation	43,831	43,831	61,900	61,900
Operating Taxes	58,362	58,362	55,700	58,000
Operating Rents	25,592	25,592	21,000	21,000
Total	\$612,284	\$612,284	\$607,700	\$612,500
Net Operating Income	\$(34,890)	\$ 37,546	\$(53,100)	\$ 17,200
Income Taxes	-	14,284	-	5,700
Net Income	\$(34,890)	\$ 23,522	\$(53,100)	\$ 11,500
Operating Ratio	106.1	96.4	109.6	98.2
Rate Base		\$330,932		\$277,800
Rate of Return	-	7.1%	-	4.1%

( ) indicates loss .

It is apparent from these figures that existing fares will not, in the future, return full costs.

The difference in the two forecasts under the proposed rates must be evaluated to determine the appropriate amount of additional revenue needed.

In computing passenger revenue, applicant reduced present revenue by five per cent and then added the 20 per cent proposed increase. The five per cent reduction was considered as the loss due to the fare increase, and no figures were submitted on traffic trends. The engineer computed a declining traffic trend equivalent to approximately 8.8 per cent of revenue, then added 96 per cent of the proposed increase of 20 per cent.

In rate proceedings, the burden is upon the applicant to justify the proposal, and it must rest its case upon the probative evidence it submits. We will therefore accept the higher revenue estimate of applicant.

Concerning express revenue, applicant failed to give effect to rate increases authorized by Decision No. 46573, dated

December 18, 1951. In that proceeding the express rates of five passenger stage corporations, including applicant, were increased on uniform mileage blocks and weight brackets. These increased rates have been in effect for only four months, as of the date of applicant's exhibits herein. The engineer took this increase into consideration in arriving at his estimate of \$25,800 express revenue for the test year. No evidence was submitted by applicant that these rates are noncompensatory. It will be noted that the engineer's estimate under the present rates is greater than applicant's estimate with the proposed increase. On such a record, we must find that this sought increase in express rates has not been justified. ✓

Relative to the expense estimates, applicant's increases in maintenance and operating rents will be disallowed as speculative, in accordance with the prior findings herein.

There is a rather sharp difference in depreciation expense. The engineer testified he used a straight eight-year service life on Aero bus equipment and that applicant used 10 years. He also included depreciation on two recently acquired pieces of equipment, and retired two others. Applicant did not explain the figure it used, other than to say it was its usual depreciation. Since applicant's figure is conservative, it will be accepted.

The engineer and the applicant were very close on all other expense items, and little difference appears in the totals thereof.

The rate base of applicant was computed as of April 30, 1952. We will use the future year ending June 30, 1953 to test the results of the proposed increase. Applicant's rate base will therefore be adjusted to the mid-point thereof (December 31, 1952) by deducting therefrom eight months' depreciation (\$29,220) computed upon the annual amount shown by applicant. The resulting rate base of \$301,712 is hereby adopted.

A further adjustment in wage expense is required, since the test year selected includes seven months under new wage scales effective December 1, 1952. The upward adjustment amounts to \$6,000 for wages. We will not at this time give effect to wage increases which do not commence until December 31, 1953.

A tabulation of the foregoing figures and adjustments indicates the following estimated results of operations for a 12-month period ending June 30, 1953 under the proposed fare increases:

<u>Revenues</u>		<u>Expenses</u>	
Passenger	\$566,974	Maintenance	\$119,200
Charter	60,000	Transportation	240,200
Express	25,800	Station	21,760
Other	82	Traffic & Adv.	14,610
Total	\$652,856	Ins. & Safety	37,723
		Adm. & Gen'l.	44,335
		Depreciation	43,831
		Operating Taxes	58,362
		Operating Rents	21,000
		Total	\$601,021
Net Operating Income	\$ 51,835		
Income Taxes	22,450		
Net Income	29,385		
Operating Ratio, after taxes	95.5		
Rate Base	\$301,712		
Rate of Return	9.7%		

After careful consideration, we are of the opinion that the foregoing rate of return is greater than is reasonable for this operation. A downward adjustment in the proposed fare increase is necessary. A 15 per cent fare increase, after reduction of existing passenger revenues by five per cent in the manner used by applicant, would produce \$543,349 passenger revenue, \$629,231 gross revenue, \$28,210 net operating revenue, and \$18,500 net after taxes, for an operating ratio of 97.1 and a rate of return of 6.1 per cent. This rate of return will probably be a little higher because of the effect of the "breakage" applicant will take on its fare scales.

On this record we find that this rate of return is reasonable, and that increased fares to the extent indicated have been justified. In all other respects we find that the proposals have not been justified. In view of the need for additional revenue to meet the retroactive wage increase, the request to make the changes on less than statutory notice will be granted.

ORDER

Based upon the evidence of record and the conclusions and findings contained in the foregoing opinion,

IT IS ORDERED:

(1) That applicant be and it is hereby authorized to establish, within sixty (60) days after the effective date of this order and on not less than five (5) days' notice to the Commission and to the public, a 15 per cent increase in passenger fares, and to adjust the resulting scale upward to the nearest 0 or 5 for all fares under 35 cents, and to the next highest cent for all fractional fares over 35 cents.

(2) That in all other respects the 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 8<sup>th</sup> day of July, 1952.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]

Commissioners  
Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.