A.33324 SJ

ORIGINAL

Decision No. 47825

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Richmond & San Rafael Ferry & Transportation Co. for authority to increase its rates and charges for ferry service and revise its rules and regulations.	Application No. 33324

Appearances

Brobeck, Phleger & Harrison, by George D. Rives, for applicant.
Leigh Athearn, for Marin County Federation of Commuter Clubs, protestant.
John J. Garvey, Jr., for City of Richmond, protestant.
H. F. Wiggins, T. A. Hopkins and Freyman Coleman, for the staff of the Public Utilities Commission.

O P I N I O N

Richmond & San Rafael Ferry & Transportation Co. is a common carrier by vessel. It operates a ferry service for the transportation of vehicles, passengers and freight between Point San Quentin, near San Rafael, and Castro Point, near Richmond. By this application, as amended, the company seeks authority to increase its rates.

Public hearing of the application was held at San Francisco before Commissioner Potter and Examiner Jacopi.

The record shows that applicant operates four vessels in the ferry service in question. Two of the vessels generally are used to provide the regular schedules. Additional schedules on week ends, holidays and other peak periods are operated by the other two vessels. Applicant's present rate structure consists of various rates applicable to automobiles and passengers, to motor trucks and freight loaded thereon and to specified other types of vehicles. The rates vary with the types of vehicles, the number of passengers in automobiles, the weights of motor trucks and the quantity of freight transported.

The principal changes proposed in the present rate structure affect the movement of passenger automobiles and motor trucks. The present one-way rate of 70 cents for an automobile and driver would be increased to 88 cents. For an automobile and driver and not to exceed four additional passengers, the present one-way rate is 80 cents and the commutation rate is $22.50 good for 60 trips within a period of 60 days after the date of sale of the ticket. The one-way rate would be increased to 88 cents and the 60-trip commutation rate would be replaced by a rate of $19.50 providing for 40 trips within a period of 30 days after the date of sale of the ticket. Under the present rate structure, motor trucks or truck-trailer combinations weighing more than 4,000 pounds are assessed a flat charge regardless of the sizes of the vehicles involved. An additional charge for freight loaded thereon is made under weight rates. In lieu of this basis, single trucks or combinations weighing more than 4,400 pounds moving empty would be charged for in accordance with the gross weights of the vehicles.[1] When under load, the charge would be based upon the gross weight of the vehicles and contents. The rates proposed for this purpose are 25 cents per ton for the first 20,000 pounds, 15 cents per ton for the next 20,000 pounds and 10 cents per ton for the gross weight in excess of 40,000 pounds, subject to a minimum charge of $1.10. The various increases proposed in the rate structure range from 4 percent on delivery trucks weighing over 3,000 pounds but not over 4,400 pounds to 100 percent in the minimum charge for freight not on vehicles. The latter adjustment involves raising the present 25-cent minimum charge to 50 cents. The average increase amounts to 14.4 percent. The sought rate increases are expected to produce additional revenue amounting to $128,367 per year.

[1] Trucks weighing 4,400 pounds or less are assessed the same rate applicable to passenger cars. These vehicles are described in applicant's tariff as light delivery trucks.

Applicant's president testified that the proposed adjustment of the ferry rate structure is the first rate increase sought by the company in 37 years of operation. Assertedly, various reductions were made in the rates for passenger automobiles and motor trucks during the 1931-1941 period as the ferry facilities were expanded and improved to keep pace with the increasing traffic volume. An exhibit introduced by the president showed that the ferry operations in the year 1951 produced net operating income of $39,728 after provision for income taxes.[2] The revenue was $916,995 and the operating expenses amounted to $863,540. The operating ratio after taxes was 95.67 percent. He stated, however, that the present rate structure now was inadequate by reason of steady advances in the cost of operation. He pointed out, for example, that a wage increase amounting to $29,387 per year, including pay roll taxes, was granted to applicant's employees effective March 1, 1952.

The president testified further that the need for the sought rate adjustment also was occasioned by the imminent construction of a vehicular bridge generally paralleling the ferry company's route. According to the witness, the bridge is expected to be opened for traffic in the year 1956. He asserted that it would be necessary to discontinue the ferry service when the bridge commenced operations. The witness pointed out that other ferry companies formerly operating in the San Francisco Bay area had found it impossible to compete with the bridges and that such ferry operations had been abandoned. The president asserted that unless the ferry company were allowed to

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[2] The operating results shown in the exhibit have been adjusted by eliminating interest charges from the operating expenses.

amortize its undepreciated investment in the piers and vessels it would not be able to recover the investment in these operating facilities in full.[3]

The Projects Engineer, Division of San Francisco Bay Toll Crossings of the California Department of Public Works, testified under subpoena relative to the vehicular bridge in question. He explained that under an appropriation by the Legislature his division prepared and submitted in January 1951 a favorable report on the feasibility of planning and constructing a bridge connecting Marin County and Contra Costa County. The 1951 Legislature made a further appropriation to develop plans, specifications, surveys, engineering costs and other data pertaining to the bridge. This work has been in progress since July 1, 1951, and the bridge plans were about 50 percent completed when the hearing herein was held. The plans provide for a steel bridge 4.1 miles long between the bridgeheads and generally paralleling the present ferry route. Two proposals are being prepared. One of them, the aforesaid division's recommended plan, provides for use of the ferry company's 2,000-foot pier at Point San Quentin as part of the bridge approach. Under the alternate plan, none of the ferry company's existing structures would be used. It is proposed in the plans that construction of the bridge would commence on January 1, 1953, and would be completed during the summer months of 1956.

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[3] The submerged and other lands used in connection with the ferry operations are not owned by the company. They are held under leases and are not included in the proposed amortization of the operative properties.

The evidence shows that, as matters now stand, the complete report, including the bridge plans and specifications, prepared by the division in question will be presented to the Director of Public Works about November 1, 1952. If the report is approved by the director he will present it to the California Toll Bridge Authority for consideration and final approval, including selection of the bridge site. The bonds for financing the construction of the bridge would be advertised for sale upon approval by the Authority of the report in question. At that time, negotiations would be initiated to acquire the properties needed for the bridge right-of-way and the procedures leading to the award of the construction contracts would be undertaken. According to the projects engineer in question, no commitments have been made thus far to compensate the ferry company as a result of the construction of the bridge.

Evidence relative to the annual results of operation anticipated for a test year under the present and proposed rates was offered by a consulting engineer retained by applicant and by a transportation engineer of the Commission's staff. The consulting engineer's estimates were based upon the year 1952, and those of the staff engineer covered the 12-month period ending June 30, 1953. The engineers made adjustments in the calculations to provide for the effect of known increases in operating expenses. In addition, the consulting engineer included in the expenses for the test year $180,641 to cover the proposed amortization of applicant's piers and vessels for the purpose of recovering the undepreciated investment in the facilities by the time the bridge in question commences operations. The aforesaid amount was based upon the net book value of the facilities amounting to $903,207 amortized over a period of five years, the estimated time for the completion of the bridge.[4] In the circumstances, the consulting engineer did not include depreciation charges on the facilities in question in the operating expenses for the test year. The staff engineer made no provision in his estimates for the amortization of facilities. Instead, the regular annual book depreciation charges were used in his figures. The estimated annual operating results under the present and proposed rates as set forth below were summarized from the exhibits submitted by the witnesses.

Estimated Operating Results Under The Present And Proposed Rates As Calculated By Applicant For The Test Year 1952 And By The Commission Engineer For The Test Year Ending June 30, 1953

	Present Rates		Proposed Rates	
	Applicant	Commission Engineer	Applicant	Commission Engineer
Revenue	$1,101,136	$1,101,136	$1,229,503	$1,229,503
Operating Expenses	1,153,214	1,054,559	1,153,214	1,054,559
Net Before Income Taxes	($52,078)	$ 46,577	$ 76,289	$ 174,944
Income Taxes	--	11,796	27,817	81,012
Net After Income Taxes	($52,078)	$ 34,781	$ 48,472	$ 93,932
Rate Base	$ 892,636	$ 878,412	$ 892,636	$ 878,412
Rate of Return	--	4.0%	5.4%	10.7%
Operating Ratio After Income Taxes	104.7%	96.8%	96.0%	92.4%

(______) - Indicates loss

[4] The net book value of $903,207 in question is comprised of $785,142 as the depreciated book cost of the piers and $118,065 as the depreciated book value of the four vessels after deduction of $20,000 for the total salvage value of the vessels.

In developing the revenue estimates, both of the witnesses concluded from studies of traffic trends that the volume of traffic for the test year would continue at the 1951 level. They pointed out that the principal movements occurred on week ends and that even with four vessels in continuous operation during those periods some waiting time on the part of the patrons was involved. The witnesses considered it unlikely that the traffic volume would increase under these conditions. They were in agreement also that no traffic would be lost if the proposed rates were established. The foregoing considerations account for the fact that there was no difference in the revenue estimates submitted by the witnesses.

The operating expenses were based in most instances upon the actual expenditures for the year 1951 adjusted to current cost levels. The maintenance costs, however, were developed by applicant on the basis of the average annual experience for the past 11 years with adjustments to reflect the present cost levels. Assertedly, these expenses were averaged to give appropriate effect in the test year to items involving relatively heavy maintenance expenses, such as major repairs to the vessel hulls and power plants, which occur generally at intervals of from three to four years or more. The staff engineer analyzed the book records for the years 1950 and 1951 and for the first quarter of 1952.

The only difference in the estimates of the operating expenses results from the fact that applicant's witness provided for the amortization of the operating piers and vessels over a 5-year period whereas the staff engineer based his figures instead upon normal depreciation of these facilities in accordance with the book records. As previously stated, the proposed amortization was predicated upon applicant's asserted inability to compete successfully with a vehicular bridge expected to be opened to traffic in 1956 and upon the fact that the normal depreciation charges would fall far short of full recovery of the undepreciated investment in the ferry facilities in the next five years. Consideration of the evidence relative to the contemplated bridge leads to the conclusion that the proposal to amortize the investment in question is premature. The commencement of the construction of the bridge and other factors which might affect the ferry company's facilities lack the definiteness which is necessary to a sound conclusion relative to whether or not the proposed amortization of the aforesaid investment should be adopted at this time. Under the circumstances, it will not be authorized on this record.

The rate base is another item that requires discussion. The difference in the estimates of record is attributable in part to the witnesses' use of different test years and to the effect of the proposed amortization provided for in applicant's figures but not in those of the staff engineer. An allowance of $37,000 for working cash capital was included in the rate base figures of both of the witnesses. The company witness said that the amount in question was equal to the operating expenses for a period of two weeks. Both of the witnesses stated that the working cash capital was provided for because the ferry company usually operates at a loss for the first three months of each year. The staff engineer pointed out that the Commission had made an allowance for working cash capital in Decision No. 45885 of June 26, 1951, in Application No. 32317, in re Increased Fares, Catalina Steamship Company. According to the record, the steamship company in question operates a service which is highly seasonal and results in operating losses for 8 months of each year.

The situation in the instant ferry operation, however, differs materially. Operating losses are sustained only in the first three months of each year when traffic generally is at a low level. It is concluded from the evidence showing a substantial cash balance at the end of the first quarter of 1952 that no need has been shown on this record for an allowance for working cash capital.

The staff engineer's estimates do not include provision for amortization and they cover a test period later than the one employed in applicant's calculations. This engineer's figures, as adjusted by eliminating the allowance for working cash from the rate base, will be used for the purpose of this proceeding. As so adjusted, the annual operating results under the present and proposed rates would be as follows:

	Present Rates	Proposed Rates
Net Operating Income After Income Taxes	$ 34,781	$ 93,932
Rate Base	$ 841,412	$ 841,412
Rate of Return	4.13%	11.16%
Operating Ratio After Income Taxes	96.8%	92.4%

A representative of the Marin County Federation of Commuter Clubs, appearing also as an individual user of applicant's service, testified that no objection was being offered to an increase in the ferry rates if the Commission found it to be justified by the evidence. He objected, however, to the increase of 30 percent sought in the existing commutation rate covering the transportation of an automobile, the driver and not more than four additional passengers. The witness pointed out that materially smaller increases were being sought in the one-way rates for automobiles and the passengers, for light delivery trucks and for other classes of movements. Assertedly, a uniform increase in all of applicant's rates would result in an equitable spread of the advances experienced in the cost of operation.

Conclusions

The record shows that the continuance of operations in the test year under the present rates would produce net operating income of $34,781 after provision for income taxes. The corresponding operating ratio and rate of return would be 96.8 percent and 4.13 percent, respectively. It is clear that the revenue under the present rates is insufficient to provide a safe margin for an operation involving revenue and expenses each amounting to more than one million dollars per year. However, the increased rates sought by applicant would produce an operating ratio of 92.4 percent after provision for income taxes and a corresponding rate of return of 11.16 percent. Such earnings are greater than necessary or justified on this record. Upward adjustments of the rates as shown in the order herein would return to the applicant annual net income of $57,981 after income taxes. The Commission hereby finds the corresponding rate of return of 6.89 percent on a rate base of $841,412, when considered in connection with the resulting operating ratio of 94.96 percent after taxes, to be fair and reasonable on this record. The increased rates which produce these operating results will be authorized in lieu of those sought by applicant.

Counsel for the Marin County Federation of Commuter Clubs and a representative of the City of Richmond moved for dismissal of the application without prejudice to the filing of another application in the future. It was contended that applicant had not sustained the burden of proof relative to the proposed amortization and to the amount of the increase sought in the commutation rate for automobiles and passengers, that applicant had not exhausted every means available for increasing the traffic volume, and that the operating results shown in the application for a period of only three months were not representative of applicant's annual earning position. The reasons advanced by the aforesaid protestants do not warrant dismissal of the application as requested. The revenues under the present rates, as hereinabove found by the Commission, are insufficient to provide reasonable earnings for applicant. This conclusion is based upon estimated operating results in which the proposed amortization of facilities was not allowed by the Commission. These operating results covered the year 1951 and also a future test period of 12 months rather than the 3-month period referred to by the protestants. In regard to the possibility of increasing the traffic volume, the record shows that applicant provides what appears to be a reasonable amount of advertising of the service and that it is handling capacity loads during the periods when the principal movements take place. The motions for dismissal of the application will be denied.

Upon careful consideration of all of the evidence of record the Commission is of the opinion and hereby finds that the increased rates set forth in the order which follows are justified. To this extent the application will be granted. In other respects it will be denied. Applicant requested that if increased rates are authorized it be permitted to establish them at the earliest possible date. In view of the evident need for increased revenue, authority will be granted to establish the rates herein authorized on less than statutory notice.

O R D E R

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

IT IS HEREBY ORDERED that Richmond & San Rafael Ferry & Transportation Co. be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and the public, increased rates and charges and changes in tariff rules as follows:

1.	Freight, not otherwise specified, not on vehicles; per 100 pounds	10 cents
2.	Passenger automobile, or light delivery automobile or truck weighing 4,400 pounds or less, and driver	74 cents
3.	Passenger automobile, or light delivery automobile or truck weighing 4,400 pounds or less, and driver and not more than four additional passengers	83 cents
	Passengers in excess of driver and four, each	10 cents
	Children under 12 years of age	Free
4.	Ambulances, Dead Wagons or Hearse, including driver and not more than four passengers	85 cents
5.	Passenger bus and driver	$1.10
	Each passenger in bus	10 cents
6.	Trailer attached to automobile	68 cents
7.	Motorcycle	29 cents
8.	Tricar	39 cents
9.	Commutation fare for passenger automobile, or light delivery automobile or truck weighing 4,400 pounds or less, and driver and not more than four additional passengers, good for 60 trips within 60 days from and including date of sale of ticket	$23.50

10. Motor Truck or Truck-Trailer or Semi-Trailer combinations, weighing over 4,400 pounds, and driver:

First 20,000 pounds, per ton	25 cents
Next 20,000 pounds, per ton	15 cents
Over 40,000 pounds, per ton	10 cents
Minimum charge	$1.10
Passengers in addition to driver, each	10 cents

Rates apply to the gross weight of the motor truck or combinations when moving empty or to gross weight of such vehicles and contents when moving under load.

11. Single vehicle, or load, over 35 feet in length, or combinations of vehicles, or load, over 70 feet in length will be subject to an additional charge of 10 cents per lineal foot or fraction thereof in excess of the specified lengths.

12. Passengers not otherwise provided for in this order, each — 10 cents

(Children under 12 years accompanied by an adult will be handled free)

13. Establish the provisions shown in Rules Nos. 1(a), (b) and (c), 2, 3 except height of 11 feet 9 inches, 4, and 5 set forth in Exhibit "B" of the application, as amended, filed in this proceeding.

14. Amend existing tariff rules by making item 11 above applicable to ditchers, harvesters, steam-rollers, traction engines and other over-length vehicles, and by discontinuing rates named in Items Nos. 81, 130 and 170 of Local Freight Tariff No. 11, C.R.C. No. 11.

15. Commutation tickets sold prior to the effectiveness of the increased rates authorized herein shall be honored for the period now provided in connection therewith. Redemption of all or the unused portion of such tickets shall be in accordance with the present tariff rule.

16. In all respects other than as specifically set forth above, all rates, rules, regulations and privileges now in effect shall remain unchanged.

IT IS HEREBY FURTHER ORDERED that, in addition to the required filing and posting of tariffs, applicant shall give notice to the public by posting in its vessels and at its terminals notice of the increased rates herein authorized. Such notices shall be posted not less than ten (10) days prior to the effective date of the rate changes and shall remain posted until not less than twenty (20) days after said effective date.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 33324, as amended, be and it is hereby denied.

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.

IT IS HEREBY FURTHER ORDERED that the motions for dismissal of Application No. 33324, as amended, discussed in the foregoing opinion be and they are and each of them is hereby denied.

Dated at San Francisco, California, this 14th day of October, 1952.

R. V. [illegible]
President
Justus F. Craemer
Harold P. Huls
Kenneth Potter
Peter E. Mitchell
Commissioners