

Decision No. 48570**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of THE GRAY LINE, INC., to increase)
and adjust rates and fares for)
sightseeing tours in the State of)
California.)

Application No. 34055

Edward M. Berol, for applicant.
T. A. Hopkins, for the Commission's staff.

O P I N I O N

The Gray Line, Inc., operates as a passenger stage corporation engaged in common carrier services consisting of (1) sightseeing tours in the San Francisco Bay area and between San Francisco and the Petrified Forest in Sonoma County, the Mother Lode country, Yosemite Valley and the Monterey Peninsula and (2) seasonal passenger service to and from race tracks and football games in the Bay area. The company also provides charter services which are described as non-utility operations. (1) By this application, authority is sought to increase the sightseeing fares by varying amounts on less than statutory notice.

A public hearing of the application was held at San Francisco on March 18, 1953. Evidence was offered by applicant's president, by its auditor and by a transportation engineer of the Commission's staff. No one appeared in opposition to applicant's proposals.

(1) The charter operations consist of (1) the transportation of stevedores to and from docks in the Bay area under a contract with the United States Army and another contract with stevedore companies and (2) the movement of passengers for fraternal and other organizations.

Applicant's sightseeing operations consist of 30 tours. The present fares vary generally with the distance involved and range from \$1.35 for a San Francisco Bay Bridge tour to \$35 for a tour between San Francisco and Yosemite Valley. The fares would be increased under applicant's proposals by amounts ranging from 20 cents to \$4.13 per passenger. It was estimated by applicant that the advances sought averaged about 11 per cent.

According to applicant's president, the need for the sought fare increases is occasioned by substantial advances in the cost of wages and of materials and supplies experienced since January 1949. The evidence shows that the fares for the nonutility charter service hereinbefore described and those for the portion of the common carrier operations consisting of service to and from race tracks and to and from football games in Berkeley have been increased since 1949 by aggregate amounts ranging from 16.3 per cent to 28.7 per cent to compensate for the higher costs. Assertedly, the present fares for the foregoing services are compensatory. On the other hand, the president said, no upward adjustment had been made since 1949 in the fares for the remainder of the common carrier operations, i.e., the sightseeing services. The witness stated that the sightseeing fares now were insufficient to cover the cost of performing the services and that the additional revenue anticipated from the higher fares sought was necessary to place the operations on a compensatory basis.

Exhibits dealing with the financial results of applicant's operations were offered by its auditor and by a transportation

(2) For 27 of the 30 tours, the fares range from \$1.35 to \$7.50. The corresponding advances sought therein range from 20 cents to 61 cents per passenger.

(3)
 engineer of the Commission's staff. The witnesses were in agreement that applicant would experience a loss on the sightseeing service if it were conducted under the existing fares in the future 12-month period ending March 31, 1954. The estimated operating results for this service under the present and proposed fares as set forth below were taken from the exhibits offered by the witnesses in question. In these estimates, all known advances in operating expenses were given effect on an annual basis.

Sightseeing Service - Estimated Revenues and Operating Expenses Anticipated Under the Present and Proposed Fares for the 12-Month Period Ending March 31, 1954.

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Staff Engineer</u>	<u>Applicant</u>	<u>Staff Engineer</u>
Revenues	\$540,501	\$540,500	\$584,848	\$606,700
Operating Expenses	556,852	568,300	563,508	570,600
Net Operating Revenue	<u>\$(16,351)</u>	<u>\$(27,800)</u>	\$ 21,340	\$ 36,100
Income Taxes	-	-	6,402	13,900
Net Income	<u>\$(16,351)</u>	<u>\$(27,800)</u>	\$ 14,938	\$ 22,200
Rate Base	\$238,007	\$217,800	\$238,007	\$217,800
Rate of Return	-	-	6.3%	10.2%
Operating Ratio after Income Taxes	103.0%	105.1%	97.4%	96.3%

() - Indicates Loss.

The entire common carrier operations, which include the sightseeing service, also would show a loss, according to applicant's auditor, if the present fares were continued during the 12-month period ending March 31, 1954. He calculated that the loss would amount to \$8,093 and that the operating ratio would be 101.1 per cent.

(3) The auditor reported that applicant's books showed that for the year 1952 the over-all operations earned net income under the existing fares of \$42,382 after provision for income taxes and that the corresponding operating ratio was 97.1 per cent. He pointed out that if increases experienced in costs had been in effect throughout the year the foregoing over-all net income would have been reduced to \$24,273 and the operating ratio would have been 98.4 per cent.

The staff engineer estimated that net income of \$19,800, after provision for income taxes, would be earned under the present fares by the aforesaid common carrier operations and that the corresponding operating ratio would be 97.2 per cent.

Applicant's president testified that the sightseeing business represented the company's principal operation and that it involved conditions not usually encountered in regular passenger transportation services. His testimony showed that the bulk of the annual movement was concentrated in the relatively short summer vacation period and that the volume of traffic each year fluctuated with economic conditions and with other conditions particularly affecting tourist traffic. Specially designed busses equipped with glass tops, large windows, luxurious interior appointments and public address systems are provided for the sightseeing operations. Assertedly, equipment of this type is not available for leasing from other carriers and applicant has found it necessary to maintain its regular fleet of sightseeing busses on the basis of the number needed to handle the peak movement. The witness asserted that usually it was not economically practicable to use the sightseeing busses in other services. He maintained that the risks attending sightseeing operations required a margin between revenues and expenses greater than that ordinarily needed by other public transportation services.

In justification of the varying fare increases sought, it was pointed out that the present fares varied generally with the distance. Assertedly, the proposed advances were predicated upon the distance and the time involved in each movement.

Conclusions

It is clear that the present fares for applicant's sightseeing operations are insufficient to cover the cost of performing

the service. The estimated results of operation anticipated under the proposed fares, however, require a number of adjustments. In his revenue calculations, applicant's auditor estimated that two per cent of the sightseeing traffic would be lost if the proposed higher fares were established whereas the staff engineer assumed that there would be no traffic deflection. The evidence of record is persuasive that the increased fares would cause a drop in the sightseeing traffic and that it would amount to one per cent. This figure will be used for the purpose of this proceeding. In regard to the operating expenses, studies of record show that an upward adjustment of about \$10,000 should be made in the cost of maintenance of revenue equipment as calculated by applicant's auditor. The estimated rate base submitted by the auditor included an allowance of \$40,308 for working cash to cover the time usually involved in the receipt of remittances for tickets sold by eastern agencies. The amount in question is greater than that necessary to offset the funds tied up by reason of settlements being made on a monthly basis. The staff engineer's estimate of \$15,000 for working cash developed from the book records is reasonable and will be allowed. The amount of \$13,028 for organization and franchises included in the auditor's estimate of the rate base was not substantiated and will not be allowed. Assertedly, the amount was carried forward from their books after consolidation of several predecessor companies. The record shows that applicant has no information relative to the items comprising the amount.

With the foregoing adjustments, the record shows that the estimated annual results of operation under the proposed fares for the sightseeing service would be as shown in the following tabulation:

Sightseeing Service - Adjusted Revenues and Operating Expenses Anticipated Under the Proposed Fares in the 12-Month Period Ending March 31, 1954.

Revenue	\$600,600
Operating Expenses	570,600
Net Operating Revenue	\$ 30,000
Income Taxes	10,600
Net Income	\$ 19,400
Rate Base	\$217,834
Rate of Return	8.9%
Operating Ratio after Income Taxes	96.9%

The record made in this proceeding shows that the rate base for the sightseeing operations now is substantially depreciated. Under the circumstances, the Commission finds that the earnings from the proposed fares resulting in a rate of return of 8.9 per cent for the sightseeing service on a rate base of \$217,834, when considered in connection with an operating ratio of 96.9 per cent after provision for income taxes, are reasonable. ⁽⁴⁾

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and finds that the increased sightseeing fares proposed by applicant in this proceeding are reasonable and justified. The application will be granted.

(4) The operating results of the entire common carrier operations, which include the sightseeing services, also would be affected by the substantially depreciated value of the sightseeing equipment. With the adjustments hereinabove indicated, it is estimated that the entire common carrier service would earn, after upward adjustment of the sightseeing fares, net income of \$43,300 after income taxes. This is equal to a rate of return of 17.8 per cent and an operating ratio of 94.3 per cent after income taxes. According to the evidence, however, these earnings are not expected to be realized. The evidence shows that the revenue forecast for the race track service was based upon the traffic level for 1952, which was unusually favorable, and that there will be a material drop in such traffic in the next 12 months.

O R D E R

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

IT IS HEREBY ORDERED that The Gray Line, Inc., be and it is hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the increased passenger fares as proposed in the application and as set forth in Exhibit No. 15 filed in this proceeding.

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

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

Dated at San Francisco, California, this 5th day of May, 1953.

R. Z. Johnson
President

Robert Hulse

Bennett Patten

Robert E. Votaw

Commissioners