

ORIGINALDecision No. 49835

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 LONG BEACH MOTOR BUS COMPANY request-
 ing authority to increase certain of
 its rates of fare.

Application No. 34812

AppearancesJohn Mulholland and W. A. Baker, for applicant.Joseph B. Lamb and Henry E. Jordan, for the City
of Long Beach, protestant.Frank B. Austin, for the staff of the Public
Utilities Commission of the State of California.OPINION ON REHEARING

Decision No. 49641 dated February 2, 1954 in this proceeding authorized Long Beach Motor Bus Company to make certain fare increases and service reductions. Upon petition of the City of Long Beach, the Commission suspended and stayed the operative effect of the decision pending rehearing.

Rehearing was held before Commissioner Craemer and Examiner Bryant at Long Beach on March 3 and 4, 1954. The matter is ready for decision.

The record now before this Commission includes, in addition to the evidence developed on rehearing, all of the evidence adduced during two full days of original hearing and,

by reference, the evidence developed during hearings on two antecedent applications.¹ The evidence developed before the rehearing has been summarized in prior decisions and need not be restated herein.²

Evidence on rehearing was submitted through the testimony of the treasurer of Long Beach Motor Bus Company, three transportation engineers of the Commission staff, and the chief engineer of the Bureau of Franchises and Public Utilities of the City of Long Beach. Nineteen additional exhibits were received.

The company treasurer introduced the latest available profit-and-loss statements and revenue passenger statistics, data relating to Long Beach department store sales, and a revised forecast of operations for a future rate year.

The two Commission engineers who had introduced the service study and operating estimates at the original hearings testified further concerning the methods and procedures. Additional exhibits introduced by these two witnesses were designed to support the recommendations which they had previously offered. Both of these witnesses were of the opinion that their original conclusions were entirely sound and were further confirmed by the most recent operating experience of the applicant company. The supervising transportation engineer

¹ Application No. 34351, Long Beach Motor Bus Co. for an increase in fares; and Application No. 34659, Long Beach Motor Bus Co. for a certificate of public convenience and necessity.

² For discussion of the earlier evidence see Decision No. 49044 (52 Cal. P.U.C. 739), Decision No. 49170 (52 Cal. P.U.C. 791) and Decision No. 49641, supra.

in charge of the preparation of operating estimates by the Commission staff, who had not appeared as a witness at the original hearing, testified at the rehearing that he endorsed and supported as his own the staff operating forecasts of record in this proceeding. This witness introduced additional exhibits directed to the evaluation of elements of risk and to the problem of determining reasonable earnings for urban bus operations.

The engineer of the City of Long Beach introduced 11 new exhibits, the principal over-all purpose of which was to explain and confirm the forecast which he had made at the original hearings and to challenge in some respects the conclusions and estimates of the Commission engineers.

No other witness testified. Although the matter was well publicized by the Long Beach press, only the applicant, the Commission staff and the representatives of the City of Long Beach participated in the rehearing.

The following table shows the operating estimates of record on basis of present fares and services for the future year:

TABLE 1

Estimated Results of Operations for the Rate Year on Basis of Present Fares and Present Service

	<u>Applicant</u>	<u>Commission Staff</u>	<u>City of Long Beach</u>
Operating Revenues	\$2,014,930	\$2,058,420	\$2,227,666
Operating Expenses	<u>2,145,305</u>	<u>2,120,887</u>	<u>2,123,202</u>
Operating Income	\$ <u>(130,375)</u>	\$ <u>(62,467)</u>	\$ 104,454
Income Taxes	<u>-</u>	<u>-</u>	<u>47,561</u>
Net Income*	\$ <u>(130,375)</u>	\$ <u>(62,467)</u>	\$ 56,903
Rate Base	\$ 819,358	\$ 807,445	\$ 816,082
Rate of Return	-	-	7%
Operating Ratio*	106%	103%	97.5%

() - Indicates loss.

⊥ Includes minor nonoperating items.

* After provision for income taxes.

The figures submitted by the City engineer, as summarized in the foregoing table, were not offered as a revised current forecast but rather as a recalculation of his estimate for 1954 as introduced at the original hearing. They do not take into account any of the decline in patronage and in operating revenues that occurred since August 1953.

The record shows that whereas earnings accrued to Long Beach Motor Bus Company during the first part of 1953, financial losses and traffic declines have been suffered in every month since July as indicated in the marginal tabulation.³ Originally, the City of Long Beach had opposed any increase in fares. At the rehearing its engineer testified: "In face of the new conditions that have been developed through the last two months, why it may be possible that some fare adjustment should be made." From consideration of the

³ The present operations and services of Long Beach Motor Bus Company were divided until recently between the applicant and an affiliated company, Long Beach City Lines. For purposes of comparability all of the witnesses used the combined results when referring to the past experience. The operating losses referred to above are as follows:

Month	Net Operating Loss
August 1953	\$10,415
September 1953	4,523
October 1953	4,093
November 1953	8,111
December 1953	4,505
January 1954	23,304
Total	\$54,951

Passenger Traffic Decline

Month	1952-1953	1953-1954	Per Cent Decrease
July	1,572,438	1,599,055	(1.69)
August	1,559,499	1,471,423	5.64
September	1,590,758	1,496,523	5.92
October	1,741,046	1,577,989	9.37
November	1,536,053	1,454,635	5.30
December	1,726,566	1,595,994	7.56
January	1,648,466	1,426,786	13.46
February	1,530,707	1,391,700	9.10

() - Indicates increase.

past losses and of the forecasts submitted by applicant and the Commission staff as summarized in the foregoing Table 1, it is established beyond question that the revenue position of Long Beach Motor Bus Company must be improved promptly and effectively if its essential public services are to be sustained.

The suspended Decision No. 49641, supra, was designed to restore applicant to a reasonable earning position by combining a moderate fare increase with operating economies to be effected through the elimination of specified nonproductive routes and schedules. Operating estimates of record on this basis are summarized in the following table:

TABLE 2

Estimated Results of Operations for the Rate Year on
Basis of Fares and Service as Provided in Decision No. 49641

	As Estimated in Decision No. 49641	As Estimated by Applicant on Rehearing
Operating Revenues (a)	\$2,180,510	\$2,143,820
Operating Expenses	<u>1,943,160</u>	<u>1,982,401</u>
Operating Income	\$ 237,350	161,419
Income Taxes	<u>111,360</u>	<u>85,850</u>
Net Income	\$ 125,990	75,569
Rate Base	\$ 798,884	798,884 (c)
Rate of Return (b)	15.8%	9.5%
Operating Ratio (b)	94.2%	96.5%

(a) Includes minor nonoperating items.

(b) After provision for income taxes.

(c) From Decision No. 49641. Comparable base not submitted by applicant.

As hereinbefore indicated, the rehearing in this matter was held on petition of the City of Long Beach. Two principal issues were raised. The City asserted in its petition that the suspended Decision No. 49641, supra, would have authorized

"ill advised and lightly considered service cuts," and "an unreasonable and excessive rate of return."

The Service

A surplus
~~Excessively high standards~~ of service can be maintained *Q7.2*
only at fares greater than would be required to meet reasonable and sufficient service standards. The augmented record establishes clearly that the present operations of Long Beach Motor Bus lines are burdened with routes and schedules which constitute wasteful overservicing. The service reductions recommended by the staff engineer, to the extent that they were adopted by the Commission in Decision No. 49641, supra, are conservative by an ample margin and will leave the City of Long Beach and adjacent areas with a *satisfactory* *Q7.2* high standard of service measured by any sound standard. The authorized reduction in excessive route mileage and vehicle mileage will permit operating economies which will inure to the benefit of the bus patrons and the community.

The petition for rehearing herein refers to improvements in the interior lighting of the vehicles and in the time schedules prepared by the company for public distribution, which improvements were recommended by a Commission engineer at the prior hearing but were not required by order in Decision No. 49641, supra. The record on rehearing shows that the company has already adopted these recommendations voluntarily and intends to comply with them fully.

Q7.2
As to these service improvements, therefore, there is no necessity for a formal order *at this time*.

The Forecasts

As hereinbefore stated, the City of Long Beach did not introduce on rehearing a current revised forecast of operating results. It is largely upon basis of its original estimate, as summarized in the foregoing Table 1, that the City predicates its

position that the applicant should be granted little if any fare increase and no modification of routes or service standards. The principal difference between the City figures and the comparable estimates submitted by the applicant and by the Commission staff is found in the operating revenues. The City estimate of revenues is higher than either of the others by some \$200,000 a year. Where the experts differ widely, as in this instance, little purpose would be served by discussing their respective qualifications. It will suffice for purposes of this proceeding to say that the City engineer did not undertake to make allowance for the substantial reduction in passengers and revenues that started in August 1953. In effect he disregarded this abrupt drop because he attributed it to exceptional circumstances. The experience record since the first part of August 1953 in both traffic and revenue definitely indicates that it would be wholly inappropriate at this time to use the first six months of that year for the purpose of formulating future patronage or service of Long Beach Motor Bus Company. The forecast methods used by the Commission staff engineers were not realistically evaluated by the representatives of the City of Long Beach in the petition for rehearing. The staff methods as explained more fully on rehearing appear to be sound and conservative and to provide a reasonable basis upon which to predicate conclusions.

The additional record on rehearing lends support to the estimates relied upon in Decision No. 49641, supra, and to the conclusions therein reached with respect to service requirements. Two additional factors were developed. First, it was shown that the operating results of Long Beach Motor Bus Company in the most recent months have deteriorated, that the losses are continuing, and that the traffic decline is continuing without apparent check. Second, reference was made on rehearing to a fact of which the Commission

takes official notice, namely, that no reduction in the corporate income tax basis may be anticipated in the near future.⁴

The Net Earnings

The operating results for the future rate year on basis of fares and service as provided in Decision No. 49641 may now be reasonably estimated as follows:

TABLE 3

Operating Revenues (a)		\$2,180,510
Operating Expenses		<u>1,943,160</u>
Operating Income		\$ 237,350
Income Taxes (b)		119,848
Net Income (c)		117,502
Operating Ratio (c)		94.6%
	<u>Basis I</u>	<u>Basis II</u>
Rate Base	\$798,884	\$1,142,592
Rate of Return (c)	14.7%	10.3%

- (a) Includes minor nonoperating items.
- (b) On basis of extension of current corporation tax rates.
- (c) After provision for income taxes.

Rate Base I as set forth in Table 3 represents the average depreciated book cost of the operating equipment used and useful in the services as revised, plus amounts for land and land rights, materials and supplies, franchises and special deposits. Rate Base II is on the same basis except that the operating equipment is included at 50 per cent of historical cost which we find to represent substantially and realistically the present reasonable use value of said equipment. This latter method of constructing a rate base is contrasted with the depreciated book cost of this operating equipment which now stands on the books of the company at about 30 per cent of its original cost.

⁴ On March 2, 1954, the assigned committee in the House of Representatives voted by an overwhelming majority to continue in effect the current corporate tax rates. The operating forecasts of record in this proceeding were based in part upon an anticipated tax reduction.

Q. 2^m If the net income as estimated in Table 3 should in fact be developed during the coming year, applicant will be enabled thereby to ~~repair~~ ^{improve} its financial structure and to continue rendering a reasonable and adequate transportation service in the City of Long Beach and environs. It must be recognized, however, that any further increases in operating expenses or any decline in patronage beyond that upon which the estimates are based will reduce the net income accordingly. In all fairness it may be stated that the regulatory experience of recent years suggests that such a result is a probability. The probable earnings, therefore, are necessarily less than those forecast. For these and other good reasons this Commission cannot limit its measurement of reasonable earnings to a single rigid formula as suggested by the City of Long Beach in its closing argument, but will weigh and consider all of the available data including, but not limited to, the operating ratio and rates of return.

Upon careful consideration of all the facts and circumstances now before the Commission in this proceeding, we hereby find that the estimated operating results as set forth in Table 3 are reasonable and that the rate of return on either rate base set out therein is reasonable. The Commission concludes and finds as a fact that the fare increases as previously authorized by Decision No. 49641, supra, are justified and that the schedule and service adjustments therein authorized are reasonable and consistent with the public convenience and necessity. The necessary authority will be granted by the order which follows. In view of applicant's substantial operating losses and the delays which the company has unavoidably experienced in obtaining rate relief in this instance, the following order will be made effective on ten days' notice and

the fare and service changes will be permitted to become effective on five days' notice to the Commission and to the public.

ORDER ON REHEARING

A rehearing having been held, the Commission being fully advised in the premises and having found that the fares as herein authorized are justified,

IT IS ORDERED:

(1) That Long Beach Motor Bus Company, a corporation, be and it hereby is authorized to establish, on not less than five days' notice to the Commission and to the public, the following fares:

Adult Fares:

	<u>Cash</u>	<u>Using One Token*</u>
One Zone	13¢	12½¢ (Token)
Two Zone	18¢	17½¢ (Token + 5 cents)
Three Zone	23¢	22½¢ (Token + 10 cents)

*Tokens - Applicant shall sell tokens at the rate of two for 25 cents.

School Fares:

One Zone - 40-ride school ticket book - \$2.40
Multiple Zone - 40-ride school ticket book - 3.00

Each ticket good for ride between and through all zones.

Transfer privileges, children's fares, and zone boundaries shall be continued on the presently existing basis.

(2) That Long Beach Motor Bus Company be and is hereby authorized, upon not less than five days' notice to this Commission and to the public, to revise its routing of Line No. 5 and to adjust its schedules substantially as recommended in paragraphs 1 and 2 of page 10 of Exhibit No. 3 in this proceeding.

(3) That, in addition to the required filing of tariffs, applicant shall give notice to the public by posting in its passenger vehicles and depots an explanation of the changes in fares and

routes. Such notices shall be posted not less than five days before the effective date of such changes and shall remain posted until not less than ten days after said effective date.

(4) That the authority herein granted shall expire unless exercised within sixty days from the effective date hereof.

(5) That, except as authorized herein, the Long Beach Motor Bus Company shall not reduce or curtail schedules without further order of the Commission.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 23rd day of March, 1954.

A. Z. Duran
President

Justin J. Cullen

Samuel J. Patten

John L. Fitchell

Deane Higgins
Commissioners