

Decision No. 51880**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Star & Crescent Ferry Company)
for an Increase in Passenger Fares.)

Application No. 36840

John C. McHose and William G. Mirow,
for applicant.
Ralph U. Fitting and Loren W. East for
R. P. McClammy, president of the
North Island Association, protestant.
Leon W. Scales, for San Diego Transit
System, interested party.
Boris H. Lakusta, for the staff of the Public
Utilities Commission of the State of
California.

O P I N I O N

The Star & Crescent Ferry Company is a California corporation engaged in the business of operating a common carrier passenger service across San Diego Bay, between the City of San Diego and North Island. By application filed March 30, 1955, it seeks authority to establish increased fares on 10 days' notice to the Commission and to the public. It alleges that under present fares its operations are resulting in substantial losses. Its present fare is 5 cents cash per one-way ride. It seeks to increase this fare to 10 cents and to establish a token fare of 8-1/3 cents based on the sale of 3 tokens for 25 cents.

Public hearings on the application were held before Examiner C. S. Abernathy at San Diego on June 14 and June 22, 1955.

Evidence in the matter was presented by officers and employees of the ferry company who traced the historical development of the operations and the events which led to the filing of the present application. A consulting engineer who had been retained by the company to analyze its revenue needs submitted the results of his

study. Other witnesses for applicant testified concerning specific facets of the services and the costs thereof. A transportation engineer of the Commission's staff who had also made a study of applicant's operations, particularly as they pertain to the future, presented a summary of his findings and estimates. Representatives of an association comprised substantially of applicant's patrons presented certain data in opposition to the sought fare increases and otherwise participated in the development of the record.

The record shows that applicant is a successor in interest to services which until September 30, 1954, and for almost 40 years prior thereto, were conducted by the Star and Crescent Boat Co. The ferry service was one of several business activities of the Star and Crescent Boat Co. In order to separate its public utility services from its other operations, the boat company caused the Star & Crescent Ferry Company to be formed, and transferred to it the operating rights and assets pertaining to the ferry services.¹ Although this proceeding deals with the ferry services as conducted by the new corporate entity, consideration necessarily must be given to phases of the operations under the predecessor company in order to bring the matters involved herein into proper perspective.

It appears that for many years the ferry services have been closely allied to operations of military establishments on North Island.² Almost all of the patrons of the ferry services

¹ The transfer was made pursuant to authority granted by Decision No. 44450, and by related Decisions Nos. 44907, 45676, 49272, and 50233.

² According to testimony of applicant's president, North Island has been a military base since about 1915. At present a naval air station occupies the whole of the island.

have been, and are, either civilian employees of the military establishments or military personnel stationed on the island or on vessels using the island docks and anchorages. Because of the composition of the traffic, the usage of the ferry facilities has fluctuated with the volume of military activities. With the expansion of military operations during World War II, passenger travel to and from the island more than quadrupled and reached a peak of almost 9,000,000 passengers during the year 1945. It has since receded to about half of this amount. The evidence shows that to meet the sharply increased service demands, the Star and Crescent Boat Co. replaced its fleet with larger vessels especially designed for this service. Certain of the vessels which were used during the war years have been retired. At present six vessels, each having a carrying capacity of about 500 passengers, and several smaller vessels are being used in the ferry operations.

Applicant states that as a consequence of the post-war decline in traffic volume, and because of increases in operating costs which have been experienced, the ferry services have not returned any profit since 1951. It reports operating results for 1952 and since, as follows:

TABLE NO. 1

Operating Results - Ferry Services

	Year Ended September 30,			4 Months Ended
	<u>1952</u>	<u>1953</u>	<u>1954</u>	January 31, 1955
Operating Revenue	\$249,911	\$239,767	\$237,267	\$ 73,473
Operating Expense	<u>289,875</u>	<u>294,624</u>	<u>309,034</u>	<u>104,379</u>
Net Loss	\$ 39,964	\$ 54,857	\$ 71,767	\$ 30,906
Operating Ratio	116.0%	122.9%	130.2%	142.1%

Through evidence submitted by the consulting engineer applicant predicted a continuation of the same high rate of operating losses shown in Table No. 1 if present fares are maintained. The consultant estimated that under present fares, the ferry services, for the 12-month-period ending September 30, 1955, would produce a loss of about \$100,000, and that the corresponding operating ratio would be about 145 percent.

The Commission engineer likewise foresaw operating losses under present fares. His estimate, however, differed materially from that of the consultant in that instead of a loss of about \$100,000, he predicted that the loss would be but \$3,975. The estimates of the consultant and of the Commission engineer also differed substantially with respect to the results that would be attained under the sought fares. These estimates are summarized in Table No. 2 below:

TABLE NO. 2

Estimated Results of Ferry Services for
a Year's Operations under Sought Fares.

	<u>Consultant</u>		<u>Commission Engineer</u>
	<u>Case I</u>	<u>Case II</u>	
Operating Revenue	\$371,630	\$371,630	\$417,970
Operating Expenses	<u>316,477</u>	<u>321,978</u>	<u>255,220</u>
Net Operating Revenues	\$ 55,153	\$ 49,652	\$162,750
Allowance for Income Taxes	<u>24,835</u>	<u>22,733</u>	<u>82,260</u>
Net Income	\$ 30,318	\$ 26,919	\$ 80,490
Rate Base	\$217,917	\$276,691	\$212,300
Rate of Return	13.9%	9.7%	37.9%
Operating Ratio	91.8%	92.8%	80.7%

Note: The consultant's estimates shown in the column headed Case I were developed on the basis of applicant's book records; those in the column headed Case II reflect adjustments in the depreciation accounts with respect to certain properties which have been fully depreciated.

It would appear from the consultant's estimates that the earnings which would result under the sought fares would, at the most, be little more than those which are reasonably necessary to maintain the ferry services. On the other hand the figures of the Commission engineer indicate that the earnings would be excessive. In view of the wide variations between the estimates, specific consideration will be given to the principal items of difference in order to determine the basis most suitable for any increase in fares that may be authorized hereinafter.

REVENUES

The difference of more than \$46,000 between the revenue estimates of the consultant and those of the Commission engineer stem from (a) differences in estimates of the number of passengers which will use applicant's services; (b) differences in estimates of the amount of token usage; and (c) inclusion by the Commission engineer of earnings from a cafe operation of the ferry company.

Passengers

The estimates of passenger volume of the consultant and of the Commission engineer were both largely developed from analyses of applicant's traffic to arrive at the trends thereof. The consultant forecast that there would be a continuation of the decline in traffic from the post-war high which was experienced in 1951. He estimated that for the test year ending with September 30, 1955, the traffic volume would total 4,398,000 passengers, a decline of about 7% below the volume of 4,745,340 passengers transported during 1954. At the hearings the consultant revised his

initial estimate to 4,500,000 passengers to reflect increased travel which, he said, had occurred since his original estimate had been prepared. The volume of traffic which the Commission engineer estimated for the test year is also less than that for 1954. The difference, however, is less. The engineer forecast that a total of 4,612,800 passengers would be carried, an amount about 3% below the 1954 volume.

Evidence relating to applicant's volume of traffic was presented also by the superintendent of employment of the North Island Naval Air Station. This witness, who was called on behalf of the association representing applicant's patrons, submitted a chart showing the number of civilian employees of the station since 1948. According to the chart the number of civilian employees reached a low about the end of 1954 and has since increased to the highest level since the third quarter of 1953. The witness stated that a further increase in employment is anticipated by the commander of the station.

It appears that the downward trend of applicant's traffic which has prevailed since 1951 has been arrested. Neither the original estimate of the consultant, nor the modified estimate which he subsequently presented, appears to give sufficient recognition to the change in trend. On the other hand the higher estimate of the Commission engineer appears more responsive to the recent developments. It is concluded that for the purposes of this proceeding the passenger volume estimate of the Commission engineer should be adopted as a basis for the calculations hereinafter.

Token Usage

The revenue forecasts of the consultant were developed on the assumption that 95 percent of applicant's patrons would avail themselves of the 8-1/3 cents token fare and that only 5 percent would pay the 10-cent cash fare. The Commission engineer assumed that the token usage would be 83 percent with 17 percent of the riders paying the 10-cent fare. Both estimates of the probable token usage necessarily are based on judgment. That of the Commission engineer appears to be better founded inasmuch as it was based not only on numerous studies and comparisons which he personally had made of token usage in various fare structures of passenger carriers, but also was based on state-wide studies of token usage which have been made by the Commission's Transportation Division in which studies he participated. The token use factor which the engineer recommended will be adopted.

Cafe Earnings

The Commission engineer included in his revenue estimate as "other revenue" from applicant's public utility operations anticipated earnings of \$20,630 from a cafe and magazine stand which applicant operates in its San Diego terminal. Applicant took exception to considerations being given to the earnings of the cafe and related operations in arriving at the revenue needs of the ferry service. Through its consultant and through its counsel applicant argued that the cafe and other services are not of a public utility nature; that there is no obligation of the ferry to provide these services; that the operation of the cafe is not incidental to the ferry service, but is a separate business venture;

that although the majority of the cafe's patrons are riders of the ferries, a substantial number of the patrons come from other sources; that were the services being conducted at a loss the ferry patrons would not be expected to make up the losses and that correspondingly the ferry patrons should not be given the benefit of the earnings. In support of its position applicant presented evidence through the manager of the cafe to show that the cafe is physically separated from the ferry terminal areas; that 25 to 30 percent of the patrons do not use the ferry and that the gross revenues of the cafe and other services are as large as or somewhat larger than those from the ferry operations.

Whether the cafe and related services are part of the ferry operations appears to have been previously determined by the applicant. As has been indicated hereinbefore an objective of the forming of applicant company was to separate public utility service from other services which were being provided by the Star and Crescent Boat Co. This objective is stated in the joint application which the ferry company and the boat company filed with the Commission in seeking authority to transfer operative rights and properties of the boat company to the ferry company (Application No. 31463 and supplements thereto):

"A principal purpose of the transfer is to divide the operating assets of Star and Crescent Boat Co. between the two corporations, the new ferry company to own those assets subject to regulation by the Commission and the Star and Crescent Boat Co. to retain those assets not subject to such regulations."

Included in the list of the assets for which transfer authority was sought was the boat house cafe equipment and the boat house which houses the cafe. In their reference to both of these properties the ferry company and the boat company specifically identified them as properties being used in the ferry operation. Applicant's statements of fact and those of the boat company concerning the use of these and other properties were accepted by the Commission as basis for Decision No. 44450, supra, and for the subsequent related decisions. The status of the cafe and the related services having heretofore been established by applicant as part of the ferry operations, the arguments which are now advanced to establish a contrary finding are without merit. The earnings of these other operations will be considered as part of those of the ferry services.

EXPENSES

In the matter of expenses the differences between the estimates of the consultant and of the Commission engineer are even greater than the differences in their revenue estimates, the expense estimates of the engineer being about \$60,000 less than those of the consultant. Some of the differences in the estimates are relatively small and offsetting; others are more material and require specific consideration herein. The estimates are detailed in part in the following tabulation:

TABLE NO. 3

Comparison of Expense Estimates of the Consultant and
of the Commission Engineer

<u>Item of Expense</u>	<u>Amount of Estimate</u>	
	<u>Consultant</u>	<u>Commission Engineer</u>
Operation of Vessels		
Operators	\$89,278	\$ 91,730
Fuel and Oil	7,290	9,840
Repairs		
Equipment	44,210	35,020
Terminal	8,767	5,850
General Expenses		
Salaries of General Officers	37,200	6,000
Salaries of General Office Employees	12,190	4,800
Legal Expense	1,500(a)	300
Dues, Donations, Subscriptions	1,751	-
Compensation and Miscellaneous Insurance	8,112	4,830
Operating Rents		
Vessels	6,820	1,090
Offices	2,370	-
Depreciation	21,606(b)	15,140
All Other Expenses	80,984	80,620
	<u>\$322,078</u>	<u>\$255,220</u>

(a) Corrected figure from \$1,400

(b) Adjusted for fully depreciated properties.

Operation of Vessels
Repairs to Equipment and Terminal

It will be noted from the foregoing table that for the operation of the vessels the consultant estimated total expenses of \$96,568, as compared to the estimate of \$101,570 of the Commission engineer. It appears that the lower expense figures of the consultant conform to his lower estimate of passenger volume which has been discussed hereinbefore. Since the engineer's estimate of passenger volume is deemed to be the more representative of the volume that applicant will realize, his corresponding expense estimate for the operation of vessels should be adopted likewise. In the matter of repairs to equipment and terminal, the engineering estimate is

\$12,000 less than that of the consultant. The consultant's figures were partly based on repair expenses of the past three years. Those of the engineer were computed from an analysis of expenditures over a 5-year period. It appears that the longer period corresponds more nearly to the usual intervals between major repairs to applicant's equipment, and that the repair expense estimates of the engineer are therefore more representative of the expenses reasonably applicable to the operations.

General Officers' Salaries

The allowance of \$37,200 which the consultant included in his expense estimate for salaries of general officers reflect the officers' salary scale that was established with the separation of the ferry services from those of the Star and Crescent Boat Co. The general officers of the ferry company are also general officers of the boat company. A charge of equal amount is made against the boat company for the services which the officers perform for that company. The Commission engineer included but \$6,000 for the salaries of the general officers in his expense estimates on the grounds that for the time which the officers devote to the service the charge is consistent with payments made for general officers' salaries by public utilities of like character.

In response to the engineer's showing, the consultant undertook to develop what he designated as the minimum amount that would be reasonable for general officers' salaries were the ferry company wholly unrelated to the boat company and were the officers devoting their full time to the ferry services. On this basis he allowed an annual sum of \$15,000 for the salary of the president and \$10,000 for the salary of a vice president/general manager. He said that \$20,000 of the total allowance should be charged against the ferry service and the balance against the cafe operations.

The record shows that at present the principal participation of the general officers in the affairs of the company is that of formulating and directing the company policies. A major part of their functions appears to be that of directors, rather than that of executive officers. The evidence shows that a large part of the operations of the company are performed under the supervision of the superintendent of operations. It thus appears that much of the functions of the superintendent is that of general manager. It is concluded, therefore, that further provision for a general manager is not necessary. The allowance of \$6,000 which the Commission engineer recommended be made for managerial services other than those provided by the superintendent of operations appears to be insufficient to obtain the type of management necessary to the efficient operation of the ferry service. As to the company's operations in the past, the record is persuasive that they have been well managed and that the officers have been alert to keep the services abreast of the needs. The amount of \$15,000 which the consultant recommended be allowed for the salary of a president devoting his full time to the operations appears, in the circumstances herein shown, to be commensurate with the operation and necessary to continue in effect a high level of directorial and managerial service. This amount will be accepted as a reasonable charge to operating expenses for the purposes indicated.

Salaries of General Office Employees

With respect to the item of salaries for general office employees, the \$12,190 estimate of the consultant is almost \$7,500 more than that of the Commission engineer. The consultant's figures reflect expenses allocated to the ferry company for the services

of eight employees whose services are divided between the Star and Crescent Boat Co. and the ferry company. The consultant's estimate also represents the amount which he said would have to be paid for the services of three full-time employees, the minimum number of employees which assertedly would be necessary to perform the work required. The engineer's estimates make allowance for the services of two general office employees. In addition, however, other of his figures which relate to the operation of the vessels include provision for clerical assistance to the superintendent of operations. Applicant's operating statements show that for the years 1952 through 1954 the annual charge for salaries for general office employees allocated to the ferry operations was approximately \$12,000. The evidence indicates that in the latter part of 1954 with the separation of the ferry services from those of the Star and Crescent Boat Co., the clerical force was augmented by the assignment of clerical help to the superintendent of operations. As a consequence, it appears that the consultant's estimated expense for the clerical staff approximates \$17,500, as contrasted to a corresponding figure of about \$9,300 of the Commission engineer. It would seem that with the expectation that the traffic volume for the coming year will be about the same as for 1954, and less than that for the years 1952 and 1953, the attendant clerical costs would be at about the same level as for the previous years. Applicant did not establish the reasonableness and necessity for the additional clerical expense included in its estimates. Neither is the record convincing that the business can be reasonably operated under lesser clerical costs than for the prior year. The allowance herein adopted for salaries for general office employees and for other clerical help will correspond to the average expenses of the past three years.

Legal Expense

The engineer's expense estimate of \$300 for legal service appears low in relation to a showing which is made by applicant that its expenditures for legal advice and advice on tax matters is \$1,500 annually, and that furthermore the expenses which it has incurred in the preparation and processing of the instant application are more than \$6,500. Applicant proposes to amortize the latter amount over a 5-year period by an annual charge of \$1,300. It accordingly estimates \$2,800 as being the amount of its legal and related expenses for the coming year. This amount appears reasonable in view of the showing made and will be adopted herein.

Compensation and Miscellaneous Insurance

The consultant's estimate of \$8,112 for compensation and miscellaneous insurance represents a prorata of the combined insurance expense of the ferry company and of the boat company. The engineer's figure of \$4,830 was calculated by applying the applicable insurance against the properties and other items of the ferry company which are being insured. The latter figure appears to have been developed on a more exact basis and will be included in the basis for the conclusions hereinafter.

Operating Rents

For service during portions of the off-peak periods, the ferry company uses small boats, some of which it rents from the Star and Crescent Boat Co. The consultant's rental estimates for these vessels for the test year is \$6,820. This figure compares with the annual boat rental expense of \$6,665, which was developed by the Commission engineer from the company's records covering its operating experience for the 6-month period ending with March 31, 1955. In contrast the engineer's estimate for the rental of vessels for the test year is \$1,090. This last figure appears low inasmuch as it does not appear that the operating methods of the company have been revised so as to obviate need for the rented vessels. The higher estimate of the consultant will be accepted.

Other operating rents estimated by the consultant included an annual charge of \$2,370 for the rental of office space which applicant shares with the Star and Crescent Boat Co. The Commission engineer included no provision for office rental in his figures on the grounds that the company could utilize space in its San Diego ferry terminal for office purposes. In reply the company asserted through its consultant that the space in the terminal is neither sufficient nor appropriate for its offices. The choice of office

space and the amount which was charged therefor appear to be matters which lie reasonably within the scope of applicant's managerial discretion. The consultant's estimate for this item will be accepted.

Depreciation

Applicant's practices with respect to depreciation and those of its predecessor company, are, and have been to compute charges to depreciation expense on the basis of shorter service lives than those which may reasonably be expected to be realized in the use of the properties involved. Prior to the separation of the ferry operations from those of the Star and Crescent Boat Co., that company, pursuant to authority granted by the Bureau of Internal Revenue, fully amortized on a short-term basis two of its ferries which were placed in service during World War II. In the transfer of the ferry properties to the ferry company, these fully depreciated ferries, as well as the other assets transferred, were entered on the books of the ferry company at the net figures shown on the records of the boat company. At the time of the transfer the value of the properties as shown on the boat company's books was approximately 44 percent of the costs of the property. The record shows that had the boat company charged depreciation on a basis consistent with normal, expected service lives, the recorded net value would have been 15 percent greater.

The consultant asserted that the accelerated depreciation policies which have been followed heretofore should not control the amount of depreciation expense to be allowed for the purposes of fixing fares for the future. He declared that the depreciation expense estimates for the future should conform to the depreciation charges which would normally apply. He argued that the facilities involved are in daily operation; that the present riders should

be expected to pay for depreciation; that applicant's present patrons are different from those who helped pay the depreciation charges in the past; that the 5-cent fare which has been charged heretofore is the minimum practical fare; and that lesser depreciation charges would not have been reflected by a lower fare. With respect to the assets which were depreciated under authorization of the Bureau of Internal Revenue, he argued further that the exercise of that authority conformed to a purpose of Congress to make available the internal funds of companies and firms to meet national defense needs and that the fact that such authority was exercised should not bar applicant's right to receive normal depreciation on the properties used in its service.

In proper cases a public utility may write off operating properties on an accelerated basis in order to avail itself of beneficial provisions of the Internal Revenue Code. So far as its patrons are concerned, however, safeguards must be established in such instances to assure that the patrons are assessed for depreciation no more than is commensurate with depreciation charges computed on a normal basis. Whether the annual charges to depreciation are calculated on an accelerated basis or at normal rates the utility should not expect to receive more in the aggregate through the medium of its depreciation charges than it invested in the properties. In this instance it appears that as to the fully depreciated properties applicant and its predecessor company have recovered their investment therein through the earnings of the ferry service. No further depreciation with respect to these properties appears necessary. As to those properties which are yet partly undepreciated, the depreciation expense estimates of the Commission engineer which were developed on the basis of the remaining service lives of the properties appear reasonable and will be adopted herein.

Expenses Summarized

In the following table the expense estimates hereinbefore shown in Table No. 3 are restated with effect being given to the conclusions set forth above concerning the items discussed:

TABLE NO. 4

Operating Expense Estimates, Adjusted

<u>Item of Expense</u>	<u>Amount</u>
Operation of Vessels	
Operators	\$ 91,730
Fuel and Oil	9,840
Repairs	
Equipment	35,020
Terminal	5,850
General Expenses	
Salaries of General Officers	15,000
Salaries of General Office Employees	7,500
Legal Expense	2,800
Compensation and Miscellaneous Insurance	4,830
Operating Rents	
Vessels	6,820
Offices	2,370
Depreciation	15,140
All Other Expenses	<u>81,420</u>
Total	\$278,320

RATE BASE

As has been shown in Table No. 2 hereinabove, the consultant estimated an amount of \$276,691 as being the value of the properties used in the ferry operations.³ The Commission engineer similarly estimated an amount of \$212,300. The difference

³ This figure reflects the adjustments which the consultant urged be made in depreciation expense. The consultant also submitted a rate base figure of \$217,917 which he said was developed directly from applicant's books.

between the estimates is attributable to the differences in the amounts allowed for working cash; to the fact that the engineer included in his rate base figure an allowance for the property used in the cafe operations, whereas the consultant did not; and to the differences in the valuations placed on the properties.

Working Cash

The allowance for working cash which the consultant included in his rate base data amounts to \$47,174. The allowance for working cash which was made by the Commission engineer was limited to \$9,100 for monies used for change-making purposes. The engineer said that exhaustive studies which have been made by the Commission's staff into the matter of working cash shows that none is required where, as in this instance, the carrier's revenues are received in advance of the service that is performed. Inasmuch as it does not appear that circumstances relating to applicant's operations justify different conclusions, no provision for working cash, except for the amount of \$9,100, will be made hereinafter.

Cafe Properties

In view of the conclusions which have been reached hereinbefore that the cafe operations are part of the ferry services, discussion of the propriety of an allowance in applicant's rate base figures for the cafe properties is unnecessary. The amount which the Commission engineer recommended be included for the cafe properties will be adopted.

Ferry Properties

The consultant and the Commission engineer both developed their respective rate base data on the depreciated values of the properties used in the ferry services. The values used by the consultant represent the original cost of the properties less accrued depreciation computed at rates conforming to reasonable

service lives of the properties. The valuations used by the Commission engineer reflect the accelerated depreciation rates applied by applicant and by its predecessor, and to that extent they are lower than those of the consultant. The two vessels which were depreciated at the accelerated rates allowed by the Bureau of Internal Revenue cost more than \$65,000. Although these vessels have been written off, about half of their original value remains from a service standpoint. For these vessels the engineer included in his rate base figure an allowance of \$5,400 for use value. This allowance is an arbitrary amount determined by dividing the original costs of the vessels by their age plus one. The development of rate base data on the depreciated book values of the operating properties conforms to the method which has been approved many times and will be reaffirmed here. This method of developing rate base is consistent with our position regarding the allowance for depreciation expense. The rate base as determined by the Commission engineer in the amount of \$212,300 will be adopted as reasonable.

Summary

In Table No. 5 below are shown estimates of applicant's earnings under the sought fares and under alternate fare structures suggested by the consultant and by the Commission engineer. The consultant, in submitting his alternate proposal, which assumed a

cash fare of 10 cents and a token fare of 7½ cents based on the sale of two tokens for 15 cents, declared that it was offered for information purposes only and that it should not be construed as a modification of applicant's proposal. The expenses which are shown in the table are those summarized in Table No. 4 above:

TABLE NO. 5

Estimated Results of a Year's Operations
under Proposed Fares and under Alternate Fares

	<u>Proposed Fares</u>	<u>Alternate Fare Proposals</u>			
	10¢ Cash 3 tokens for 25¢	10¢ Cash 2 tokens for 15¢	10¢ Cash 4 tokens for 25¢	10¢ Cash 10 tokens for 50¢	
Operating Revenue (a)	\$417,970	\$381,582	\$331,420	\$302,010	
Operating Expenses	<u>278,320</u>	<u>278,320</u>	<u>278,320</u>	<u>278,320</u>	
Net Operating Revenue	\$139,650	\$103,262	\$ 53,100	\$ 23,690	
Allowance for Income Taxes	<u>69,799</u>	<u>50,179</u>	<u>23,131</u>	<u>7,771</u>	
Net Income	\$ 69,851	\$ 53,083	\$ 29,969	\$ 15,919	
Rate Base	\$212,300	\$212,300	\$212,300	\$212,300	
Rate of Return	32.9%	25.0%	14.1%	7.5%	
Operating Ratio (b)	89.3%	91.4%	94.7%	97.0%	

(a) Revenues and expenses of ferry services plus \$20,630 earnings, before income taxes, from cafe operation.

(b) Based on revenues and expenses of ferry services plus revenues of \$258,000 and expenses of \$237,370 applicable to cafe operation.

With reference to the return that it should be permitted to realize, applicant argued that a ferry service is a relatively high risk operation and that the hazards justify a higher rate of return than that which would be considered reasonable for other types of public utilities. As evidence of these hazards it pointed out that its route of travel directly crosses the main channel in San Diego Bay through which moves a large part of the shipping in and out of the San Diego Harbor. In support of its position in this respect, applicant cited instances where rates of return of

11.2 to 11.67 per cent have been found by the Commission to be reasonable for ferry operations in view of the attendant hazards and other considerations.⁵

Although it may be concluded that a relatively high rate of return is justified by the nature of applicant's operations, it appears that earnings as great as those that would result under the sought fares or under the alternate fare suggested by the consultant would be excessive. It appears that more reasonable results would be attained under the alternate fare suggested by the Commission engineer, which provides for a 10-cent cash fare and a token fare of 6 $\frac{1}{2}$ cents based on 4 tokens for 25 cents.

Upon careful consideration of all of the evidence of record the Commission concludes and finds as a fact that the estimated operating results under this basis of fares as shown in Table 5 are reasonable, that the fares proposed by applicant, thus modified as to the token rate are reasonable, and that such increased fares are justified. To this extent the application will be granted. The exercise of the authority will be conditioned upon the use of tokens not smaller than .88 inches in diameter. By stipulation filed as part of the record in this proceeding applicant agreed to this condition in order that its tokens, if authorized, would not be confused with tokens which are being used by the San Diego Transit System.

O R D E R

Based on the evidence of record and on the conclusions and findings contained in the preceding opinion,

IT IS HEREBY ORDERED that

⁵ In re Golden Gate Ferry Co., 26 C.R.C. 172, 179; in re Rodeo-Vallejo Ferry Company, 26 C.R.C. 188, 199; in re Southern Pacific Company, 26 C.R.C. 682, 707.

- (1) Star & Crescent Ferry Company be and it hereby is authorized to establish on not less than ten days' notice to the Commission and to the public, increased fares for the transportation of passengers between San Diego and North Island as follows:

Cash fare**	10 cents
Token fare**	6 1/2 cents, based on the sale of tokens at the rate of 4 tokens for 25 cents.

** Does not apply to children under five years of age if held in lap of adult passenger.

- (2) In the exercise of the authority herein granted Star & Crescent Ferry Company shall utilize tokens not smaller than .88 inches in diameter.
- (3) In addition to the required filing of tariffs, the Star & Crescent Ferry Company shall give notice to the public by posting in its vessels and in its terminals a statement of the fare changes. Such notices shall be posted not less than ten days before the effective date of the fare changes, and shall remain posted until not less than ten days after said effective date.
- (4) The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.
- (5) In all other respects Application No. 36840 be and it is hereby denied.

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

Dated at San Francisco, California, this 13th day of August, 1955.

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

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