Original

AH

Decision No. 51947

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO TRANSIT SYSTEM for authority to increase rates.	Application No. 36945
In the Matter of the Application of SAN DIEGO TRANSIT SYSTEM for authority to increase fares; and to adjust rates of fare in effect in present joint fare arrangement with SAN DIEGO AND CORONADO FERRY COMPANY.	Application No. 37142

Leon W. Scales, for San Diego Transit System and San Diego and Coronado Ferry Company, applicants.
Clarence A. Winder and Aaron W. Reese, for the City of San Diego, interested party.
Mrs. George Lykos, for the Executive Board, Ninth District, Parent-Teachers' Association, protestant.
Joseph B. Weibel, for the Amalgamated Local 1309, Bus Drivers' Union, interested party.
Harold J. McCarthy and John Pearson, for the staff of the Public Utilities Commission of the State of California.

OPINION

The San Diego Transit System operates a common carrier passenger stage service in and between the cities of San Diego, Coronado, National City, Chula Vista, La Mesa, and El Cajon and adjacent areas. By these applications, as amended, it seeks authority to establish increased fares on less than statutory notice. The San Diego and Coronado Ferry Company, which operates a common carrier service by vessel between San Diego and Coronado, joins in the application to the extent that joint fares which it maintains with San Diego Transit System are involved.[1]

[1] The San Diego and Coronado Ferry Company seeks no increases for itself. The increases in joint fares which are involved in Application No. 37142 are sought by and in behalf of San Diego Transit System. For convenience the San Diego Transit System will be referred to herein as the applicant.

Public hearings on the applications were held before Commissioner R. E. Untereiner and Examiner C. S. Abernathy at San Diego on July 20 and 21, 1955. Evidence was presented by officers and employees of the San Diego Transit System and by a transportation engineer of the Commission's staff. A statement of position and arguments were submitted by representatives of the City of San Diego. A member of the Parent-Teachers' Association appeared in opposition to increases which are sought in school fares. Two of the company's patrons presented their views with respect to certain aspects of its operations and services.

Applicant's fares are constructed on a basis of seven fare zones which radiate from the business center of the City of San Diego. The fares that apply at present and those which are sought herein are shown in the margin below.[2] These fares, in greater detail, are also set forth in the applications in these matters.

Applicant alleges that its financial and earning positions have been impaired by substantial increases in wage costs which it has experienced as a result of an arbitration award in March, 1955. Among other things, this award provided for an increase in the hourly wage rate of bus operators from $1.90 to $2.00 per hour, retroactively to December 1, 1954, and for a further increase of 4 cents per hour effective June 1, 1955. Assertedly, the effect of

---

2

	Present Fare	Proposed Fare
Within any one or between two contiguous zones	17¢ cash or 16¢ token fare (5 tokens, 80¢)	20¢ cash
Additional zones	5¢ per zone	6¢ per zone
Weekly passes through Zones 1 and 2	$3.25	$3.85
School passes or school tickets	2.10	2.50
" " " " "	2.80	3.35
" " " " "	3.50	4.20
" " " " "	4.10	4.90

this award is an increase of more than $240,000 in applicant's annual costs of operation. Applicant states that in addition to the higher wage costs, its volume of traffic has been declining; that as a consequence its gross revenues for 1954 were $332,000 less than those for 1953, and that for the year ended May 31, 1955, its revenues were $254,400 less than the estimates upon which its present fares were based. According to data presented by the company's chief research engineer, applicant faces a loss of $543,000 during the coming year if present fares are maintained. He estimated operating results under the sought fares as follows:

TABLE NO. 1

Estimated Results of Operations under Proposed Fares
Year Ending August 31, 1956

Operating Revenues	$5,662,160
Operating Expenses	5,381,500
Net Operating Revenues	$ 280,660
Income Taxes	131,260
Net Income before Amortization and Interest	$ 149,400
Amortization and Interest	58,000
Net Income	$ 91,400
Rate Base	$2,523,570
Rate of Return	3.6%
Operating Ratio	98.4%

The Commission engineer reported on a study which he and other members of the Commission's staff had made of applicant's operations to develop estimates of future operating results. He forecast also that applicant's operations during the coming year will result in losses if present fares are continued in effect. Whereas, however, applicant predicted a loss of $543,000 under present fares and a profit of $91,400 under proposed fares, the engineer predicted a loss of $118,700 and a profit of $610,200 under present and proposed fares, respectively. The proposed fares, he calculated, would result in a rate of return of 10.86 per cent and an operating ratio of 94.68 per cent. He submitted for consideration alternate fare proposals which would result in somewhat lesser fare increases than those which applicant seeks and which he estimated would produce rates of return ranging from 4.03 to 8.44 per cent.

A consultant for the City of San Diego urged that if increased fares are found justified the increases be limited to those delineated in one of the alternate proposals suggested by the Commission engineer. Under this particular alternate a cash fare of 20 cents would be established as sought; token fares would be retained but would be increased from 16 cents to 17 cents; no change would be made in the present 5-cent increment for additional zones; lesser increases than those sought would be effected in commute fares; in other respects the increased fares which applicant seeks would be established. Net revenues for the coming year which were estimated by the Commission engineer under this alternate are $140,900 with a corresponding rate of return of 5.09 per cent and an operating ratio of 97.36 per cent. Arguing in support of this recommendation, the consultant asserted that the fare structure itself should be preferred to that proposed by applicant because it involves fewer change-making operations on the part of the bus operators and thereby results in lesser delays in the bus movements. He asserted also that in the particular circumstances applicable to the company's operations an indicated rate of return of 5.09 per cent would in fact be reasonable. Reasons which he submitted in support of these views are that various of the company's charges represent expenses which were incurred years ago and which should not be included as a present charge to operations; that the company's rate base includes items for which the company has been fully compensated and upon which it is not entitled to a further return; that past experience shows that the company has been able to achieve better operating results than have been anticipated in previous fare proceedings; and that the present estimates should be evaluated accordingly.

Increases in school fares were opposed by the Parent-Teachers' Association through its district legislative chairman on the grounds that in the previous adjustment of applicant's fares in September, 1954, the school fares were increased 16-2/3 per cent and that the further increases which are now proposed represent increases of about 20 per cent. The association representative said that the further increases would result in serious budgetary problems for many families, especially those with more than one child in school. She said also that increases of this magnitude might cause school children to resort to more hazardous means of transportation such as hitch-hiking or walking or bicycling along and across major highways. She urged that every possible consideration be given to maintaining the school fares at their lowest possible level.

One of applicant's patrons who testified presented certain observations based on his use of the services over the past six years. In addition he urged that the public authorities give greater attention to facilitating the transit of persons by public carriers. As an example of a measure which might be taken along this line, he cited the limiting of designated streets or street lanes to the use of public transportation facilities only. He indicated also that greater effort should be made toward keeping bus loading and unloading areas clear for buses, particularly in the downtown district of San Diego. He said that use of these areas by individuals driving private automobiles is delaying not only the movement of the buses but is thereby adding to the traffic congestion in the downtown district. The witness declared that unless the transit problems are met the present downtown areas are confronted with the probability of becoming subordinated to developments in the outlying districts as the population of San Diego increases.

Discussion and Conclusions

The record herein is clear that applicant will experience substantial losses from its operations under present fares and that these losses will be incurred notwithstanding extensive efforts of the company to promote traffic and to establish all practicable economies.[3] In the circumstances it appears that applicant has no alternative but to establish increased fares if it is to continue its present standard of service.

It is evident that there is a substantial divergence in opinion between applicant's witnesses and the Commission engineer concerning the amount of additional revenues needed to restore the operations to a sound financial basis. Whereas it might be concluded from applicant's showing that even with the full amount of the sought fare increases in effect, the resultant earnings would fall short of being reasonable, it appears from the engineer's showing that the earnings would be very substantial. The differences between the showings are attributable primarily to major differences in the estimates of certain expenses, namely, those for management, injuries and damages, payroll taxes, depreciation and contingencies. The expense estimates, as well as the estimates of revenues and of rate base, will be considered below.

---

[3] Applicant's general manager testified at length concerning the measures the company has taken to attract traffic and to reduce expenses through increased efficiencies.

Expenses:

The amounts involved in the principal items of difference are indicated in the following table:

TABLE NO. 2

Comparison of Certain Expense Estimates

	Applicant	Commission Engineer
Management	$ 181,870	$ 76,400
Injuries and Damages	171,000	90,600
Payroll Taxes	95,270	66,100
Depreciation	477,770	342,200
Contingencies	188,600	-
Total	$1,114,510	$575,300

The amount claimed by applicant for management expense represents payment to an affiliated company for services which that company provides under a management contract. The payments are calculated on a percentage of applicant's gross revenues. The specific services which the company assertedly receives for these payments include centralized management, low cost purchasing, standardization of equipment, of materials and of methods, and the supervisory services of a higher caliber of employees than would be possible for applicant to obtain by itself. Applicant's president asserted that without this affiliation it would not be possible to carry on the operations of San Diego Transit System successfully. The amount which was shown by the Commission engineer for management expense was developed from an analysis of the operations and records of the affiliate to arrive at the actual costs of the managerial services involved. The allowance which he included in his expense estimates for management is equivalent to the costs so determined.

The evidence is not persuasive that applicant's payments for management expense represent reasonable outlays for the services received. First, as was pointed out when the company's fares were last considered, the essential objection to payments for management services upon percentages of gross revenue is that the payments bear no necessary relationship to either the cost or the value of the management services (Decision No. 50304, July 20, 1954 in Application No. 35231). Second, the implied mass purchasing power of the management affiliate by which the affiliate assertedly is able to obtain and provide superior managerial services appears to be derived primarily from applicant's own operations. The only other operations which are subject to the affiliate's control are those of the San Diego and Coronado Ferry Company, whose operations are relatively small in relation to those of the San Diego Transit System. Hence, it appears that under the management arrangement applicant attains but little, if any, advantage over what is available to it through the utilization of its own resources. Third, the volume of the payments to the affiliate in relation to the costs of the services performed impels the conclusion that a large portion of the benefits that may arise out of the management arrangement unjustifiably flow to the affiliate through the payments instead of remaining with applicant. For the purpose of this proceeding, the allowance made by the Commission engineer for management expense appears reasonable and sufficient. His estimate will be adopted.

Applicant's estimate of $171,000 for injuries and damages reflects the company's method of accounting for claims on a cash basis and represents the amount of the payments that the company expects it will be required to make to effect settlements of claims during the coming year. The engineer's estimate of $90,600 was developed from an analysis of the company's claims experience over the past five years and was submitted as representing in part the amount which is sufficient to meet the company's average annual claims expense. In other respects it includes provision of $36,500 for amortization of certain past claims in accordance with procedure approved in Decision No. 50304, supra.

The evidence shows that applicant's annual cash payments for injuries and damages vary widely.[4] In view of this fact the method and amount used by the engineer for claims expense is to be preferred for arriving at a basis for fixing fares. The resultant charge does not impose upon the fare payers a disproportionate amount of claims expense during the coming year. As applied on an accrual basis, it appears sufficient to meet applicant's needs.

Applicant's estimate of $95,270 for payroll taxes expense was developed on the basis of tax rates applicable to operations of Metropolitan Coach Lines, which operates a passenger stage service in Los Angeles, Orange, Riverside and San Bernardino Counties. The estimate of $66,100 of the Commission engineer was computed at the rate which applies at present to applicant's operations. The latter rate, the company's cost witness asserted, is insufficient for estimates of future tax expense because it does not take into consideration increased tax rates which will become applicable with the layoff of several employees. However, he was unable to estimate the amount of the expected tax increase. In the circumstances it appears that the engineer's estimate best represents the probable outlay for payroll taxes during the rate year.

The estimate of $477,770 which applicant submitted as being the amount of depreciation expense to be charged against its

[4] Applicant's claims costs per 100,000 miles of operation during the past 5 years were reported by its claims manager as follows:

1950	$ 411.19
1951	692.97
1952	396.62
1953	501.85
1954	1,147.02

operations during the coming year is based on the company's policy of computing depreciation charges on an 8-year service life for its vehicles. The Commission engineer, in arriving at his estimate of $342,200, based his calculations on service lives of 10 to 12 years. Applicant's president testified at length in justification of his company's depreciation rates. He said that a main objective of his company's operating policies is to provide good service with up-to-date equipment and that such service standards are essential to successful operations. He said that the 8-year period for depreciating equipment represents a compromise between an ideal situation of replacing equipment every six years and what the company can do in practical operating circumstances. He said furthermore that because of adversities the company has not been able to maintain even the compromise schedule and has had to and is operating many buses beyond the 8-year period.[5]

What constitutes a reasonable and proper charge to depreciation expense for rate-making purposes appears to be a matter to be determined largely by what is done rather than by what allegedly is desirable. If, as applicant indicates, a materially higher standard of service would be provided by replacement of buses at the end of an 8-year service life instead of after ten or twelve years, it is evident that in seeking to apply depreciation rates based on an 8-year period applicant is in effect undertaking to

---

[5] The record shows that the ages of the 253 buses which comprise applicant's fleet are distributed as follows:

No. of Buses	Age
35	12 years or more
20	10 years
17	9 years
3	8 years
178	7 years or less

charge its patrons for a standard of service which it is not providing. It appears that the depreciation expense estimate of the Commission engineer reflects the actualities of the operations and is reasonable. It will be adopted.

The amount of $188,600, which applicant listed as an operating expense for contingencies, represents an allowance for variations from anticipated revenues and expenses which would either result in lesser revenues or greater expenses. These variations were ascribed by applicant's cost witness to the following causes:

a. Inability to secure fare increases simultaneously with the impact of adverse changes in revenues or expenses, due partly to the time lag in regulatory processes.

b. Increased costs of labor, materials, or taxes, unforeseen at the time the level of fares was authorized.

c. Decreases in traffic below the level anticipated when rates were fixed.

d. Work stoppages, such as strikes.

The cost witness undertook to show that these factors have operated to affect materially the operations of applicant and other passenger stage corporations over the past several years. He arrived at a figure of 8.8 per cent of the carriers' operating expenses as being the amount that the carriers' earnings have been reduced by these causes. He asserted that in view of the past experience of the carriers specific recognition should be given in the expense estimates to these contingencies; and that a conservative allowance in the present instance would be at least 4 per cent of applicant's operating expenses or, as indicated, $188,600.

The Commission has repeatedly held heretofore, and its position is reaffirmed here, that it will not allow for increases on the basis of expense adjustments which are speculative.

One further difference between the expense estimates of applicant and of the Commission engineer which has not been mentioned above is in the amount allowed for amortization and interest in connection with certain retired properties. Applicant's allowance for this item is $58,000; that of the Commission engineer is $134,400. The difference lies mainly in the method by which the figures were developed, income taxes having been taken into account in arriving at applicant's figures. On a comparable basis applicant's estimate would be $119,880. The engineer's estimate will be used herein. It conforms to an amortization schedule which has been followed in prior adjustments of the company's fares. Although applicant's estimate in the present instance is lower, corresponding estimates which the company has submitted in prior proceedings have been somewhat higher than those resulting under the schedule followed heretofore.

Revenues

In dollar amount the estimates which applicant's cost witness and the Commission engineer submitted relating to the revenues that would be produced during the coming year under the sought rates are virtually the same. The estimate of applicant's witness totaled $5,662,160; that of the Commission engineer totaled $5,647,700. Certain differences exist in the factors underlying the respective estimates. Discussion of these differences does not appear necessary, however, in view of the similarity of the results. Applicant's estimates will be accepted as reasonable.

Rate Base

Applicant's cost witness and the Commission engineer differed in two material respects in the items that they included in the development of their respective rate base estimates. Applicant's witness included $250,000 allowance for working capital and approximately $72,800 for 28 buses which are not being actively used in the operations at the present time. The Commission engineer made no provision for either of these items in his rate base figure.

Applicant's claim of $250,000 for working capital was advanced on the basis that this amount is the margin that the company should have in current assets over current liabilities in order to maintain an adequate credit position. This amount, however, exceeds by $140,000 the company's "working capital" as of March 31, 1955, the most recent date for which figures were furnished. Thus, in seeking inclusion of a capital item of $250,000 in its rate base applicant is seeking a return on $140,000 more than it has in the current assets in the business. Aside from this fact, however, it is not evident that such "working capital" as there is represents funds upon which applicant is entitled to a return. The Commission has previously determined under similar circumstances that no allowance need be included in rate base for working capital.[6]

Included in applicant's fleet are 28 8-year-old buses which have an average total depreciated value of $72,800 as of the beginning of the rate year. The record shows that they have not been licensed nor used in the operations this year. The Commission engineer excluded them from his rate base on the grounds that they are nonoperative properties. Also he excluded from his expense estimates any allowances for depreciation of the buses. In reply, applicant's general manager asserted in effect that the withdrawal of the buses from active use should not be construed as retirement of the buses. He said that they are in very good condition and that they are being

---

6 Decision No. 45279.

held for use in emergencies or for such other uses as the company may require.

Notwithstanding the fact that the buses are not being operated at present, they should not be held to be nonoperative properties on those grounds alone. Although the circumstances which resulted in the suspension in use of the buses were not stated, it appears reasonably certain that the proximate cause was the decline of traffic volume of about 15 per cent which the company has experienced since January, 1954. In suspending the use of the buses instead of operating them in rotation with others of its fleet applicant apparently has acted in the interest of economy by avoiding the cost of licenses and other costs which would be incident to the buses' use. Under the circumstances of this case inclusion of the depreciated value of these buses in applicant's rate base figure therefore appears proper. However, the company's operations should not be charged with depreciation expense for the buses while they are inactive. Although some depreciation may accrue during the period of inactivity, it appears that the amount involved would be relatively small. The remaining depreciation in the buses appears to be related largely to use and should be charged to expense accordingly.

Applicant's rate base estimate, including the provisions therein for working capital and the buses referred to above, totals $2,523,570. The estimate of the Commission engineer amounts to $2,766,700. The lower figure of applicant reflects the company's policy of depreciating its properties on an accelerated basis. The rate base figure of the engineer was developed by methods consistent with prior decisions of the Commission involving the company's fares. Except for the fact that it includes no provision for the aforesaid 28 buses, it appears that the engineer's figure is the more appropriate valuation of applicant's rate base. Adjustments being made for the depreciated value of these buses produce a total amount of $2,839,500. This amount is adopted as the value of applicant's rate base for the purposes of this proceeding.

Restatement of the estimates contained in Table No. 1 to give effect to the various modifications discussed above results in the following figures.

TABLE NO. 3

Estimated Operating Results (Modified) under Proposed Fares, Year Ending August 31, 1956

Operating Revenues	$5,662,160
Operating Expenses	4,965,667
Net Operating Revenues	$ 696,493
Allowance for Income Taxes	356,300
Net Income	$ 340,193
Rate Base	$2,839,500
Rate of Return	11.98%
Operating Ratio	93.99%

In Table No. 4 are shown estimates of operating results that would be obtained under various of the alternate fare structures suggested by the Commission engineer and modified to eliminate any increases in school fares. It is in the public interest that school fares be maintained at the lowest reasonable levels consistent with the maintenance of necessary services. The evidence in this matter is convincing that applicant's school fares conform to this objective.

TABLE NO. 4

Estimated Operating Results (Modified) under Alternate Fares, Year Ending August 31, 1956

	Alternate I 4 tokens 75¢	Alternate I-A 5 tokens 90¢	Alternate I-B 4 tokens 70¢	Alternate II-A 5 tokens 85¢
Operating Revenues	$5,458,639	$5,391,818	$5,345,016	$5,295,152
Operating Expenses	4,976,117	4,983,527	4,989,227	4,994,267
Net Operating Revenues	$ 482,522	$ 408,291	$ 355,789	$ 300,885
Allowance for Income Tax	240,900	200,900	172,600	142,900
Net Income	$ 241,622	$ 207,391	$ 183,289	$ 157,985
Rate Base	2,839,500	2,839,500	2,839,500	2,839,500
Rate of Return	8.51%	7.30%	6.45%	5.56%
Operating Ratio	95.57%	96.15%	96.57%	97.02%

It appears from the data in Table No. 3 that fare increases as extensive as those which applicant seeks would result in greater revenues than are needed to return the costs of the services and to provide reasonable earnings. From the data in Table No. 4 and from the record as a whole it appears that the fare structure designated as Alternate I-B would produce sufficient revenues to enable applicant to maintain necessary service and to earn a reasonable profit. In the circumstances it is concluded, and the Commission finds as a fact, that the operating results under said alternate fare structure will be reasonable and that increased fares conforming to those reflected in alternate fare structure No. I-B have been shown to be justified. To this extent increases in applicant's fares will be authorized.

Applicant asks that in view of its needs for additional revenues it be permitted to establish the increased fares on one day's notice to the Commission and to the public. It also asks for authority to depart from the provisions of the Commission's Tariff Circular No. 2 and of General Order No. 79 requiring that fare changes be marked by appropriate symbols in tariff publications. The circumstances justify establishment of the increased fares on less notice than the usual 30-day period. The period for notice which will be authorized will be five days, since it appears more commensurate with the scope of the changes involved. The request for authority to depart from the symbolling requirements will be denied.

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:

1. San Diego Transit System and San Diego and Coronado Ferry Company be and they hereby are authorized to amend Local and Joint Tariff No. 2, Cal. P.U.C. No.3, of San Diego Transit System, on not less than five days' notice to the Commission and to the public, to establish increased fares as set forth in Appendix "A" attached hereto, which appendix by this reference is made a part hereof.

2. In addition to the required filing of tariffs, San Diego Transit System and San Diego and Coronado Ferry Company shall give notice to the public by posting in their passenger vehicles a statement of the fare changes. Such notices shall be posted on not less than five days before the effective date of the fare changes, and shall remain posted until not less than ten days after said effective date.

3. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

4. Except as otherwise provided in this order Applications Nos. 36945 and 37142 be and they hereby are denied.

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

Dated at San Francisco, California, this 6th day of SEPTEMBER, 1955.

President

Commissioners

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

A. 36945, A. 37142 AH *

APPENDIX "A"

Authorized Increased Fares

ZONE CASH FARES (in cents)

Between and	Zone 1	2	3	4	5	6	7
Zone 1	20	20	25	30	35	40	45
Zone 2 when through Zone 1		20	25	30	35	40	45
Zone 2 when not through Zone 1		20	20	25	30	35	40
Zone 3			20	20	25	30	35
Zone 4			20	20	20	25	30
Zone 5					20	20	25
Zone 6						20	20
Zone 7							20

Zone fares apply per adult one-way ride.
The zone fares shown herein will not apply via a zone to which higher fares are named.
The zone fares shown herein do not include fare on ferries of San Diego and Coronado Ferry Co.

T O K E N S

Tokens .... 4 for 70 cents

One token will be accepted in lieu of a 20-cent cash fare or for the first 20 cents of fares in excess of 20 cents.

JOINT AND MISCELLANEOUS FARES

Coronado through fare, per adult one-way ride, between points in Zones 1 and 2 and Zone 2 in the City of Coronado (does not include fare on ferries of San Diego and Coronado Ferry Co.)...... 20 cents or 1 token

On-Call Service
Between 3rd Avenue and Broadway and points in Balboa Park on-call service will be provided subject to a minimum of forty 20-cent cash or forty token fares.

Weekly Passes, form WP-1 .... $3.85
(Does not include San Diego and Coronado Ferry Co. fare)

Commutation Fares (10-ride ticket books)
Form No. Com. 6--Between points in Zones 1 and 2 and points in Zone 6 .... $3.80
Form No. Com. 7--Between points in Zones 1 and 2 and points in Zone 7 .... $4.30