

**ORIGINAL**

Decision No. 52353

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 ) Application No. 37178  
 its rates of fare. )

George H. Hook and John Munholland, for applicant.  
Walfred Jacobson, by Leslie E. Still, for the  
 City of Long Beach, interested party.  
Henry E. Jordan, for Bureau of Franchises and  
 Public Utilities of the City of Long Beach,  
 interested party.  
James K. Gibson, John L. Pearson and H. F. Wiggins,  
 for the staff of the Public Utilities Commission  
 of the State of California.

O P I N I O N

Applicant is a California corporation engaged in the business of operating an urban passenger stage service within and between the cities of Long Beach, Seal Beach, Signal Hill and Lakewood and the communities of Bellflower, Paramount and Dominguez. By this application, filed July 30, 1955, it seeks authority to effect a two-cent increase in its adult cash fares and to cancel present token fares. No changes are proposed in school fares or in zone boundaries. Applicant's present adult fares, and the increased fares which it seeks to establish, are as follows:

	Present Fares		Proposed Fares
	Cash	Token	
One Zone	13¢	12½¢ (1 token) (a)	15¢
Two Zone	18¢	17½¢ (1 token + 5¢) (a)	20¢
Three Zone	23¢	22½¢ (1 token + 10¢) (a)	25¢

(a) Tokens: 2 for 25 cents

The present fares were established on April 2, 1954. Applicant alleges that since that time its revenues have declined and its operating expenses have increased, and that as a consequence the higher fares which it seeks are necessary to the maintenance of its services.

Public hearing on the application was held before Commissioner R. E. Untereiner and Examiner C. S. Abernathy at Long Beach on November 16 and 17, 1955. Evidence was submitted by officers and employees of applicant and of its affiliated companies, by various of applicant's patrons, by a representative of the City of Long Beach, and by members of the Commission's staff. A closing statement was filed by the City of Long Beach on November 25. The matter is ready for decision.

Generally speaking, the evidence which was presented by applicant's witnesses was directed largely to (1) a showing of the circumstances that led to the filing of the instant application and (2) a showing of estimated results of operations during the coming year (a) if present fares are maintained, and (b) if the sought fares are established. According to an exhibit and testimony submitted by applicant's treasurer, the operations during the past year have been marked by a substantial decline in passenger traffic. He reported that the company's passenger volume for the 12 months ended with October, 1955, was approximately a million passengers less than for the year 1954. He predicted a continuation of the

downward trend in traffic in 1956 and estimated a further decline in volume of approximately 700,000 passengers during the year. The treasurer stated that along with the decreases in passenger traffic applicant has experienced increases in operating costs, particularly in those for labor. He said that since the time that the present fares were established in April, 1954, his company has had to grant two wage increases, one of 5 cents an hour on October 1, 1954, and another of 9 cents an hour on October 1, 1955, and that it has had to commit itself to a further increase of 5 cents an hour, effective October 1, 1956. He said that at the revenue and expense levels under which the company operated during September, 1955, applicant was able to realize virtually no earnings. Taking into consideration the wage adjustment of October 1, 1955, and that to which the company is committed a year hence, he estimated that under present fares applicant would incur an operating loss of \$20,744 during 1956 and that under the proposed fares the company would realize net earnings of \$98,776 from gross revenues of approximately two million dollars.

Estimates of operating results for the year 1956 were also submitted by a transportation engineer of the Commission's staff. These estimates were developed on the basis of studies and analyses which the engineer had made of applicant's operations and records. Except for certain expense items, the estimates of the engineer and of applicant's treasurer are substantially alike. The main points of difference which are pertinent to the conclusions

hereinafter will be discussed subsequently. The respective estimates are summarized in Table No. 1, below:

Table No. 1

Estimated Operating Results under Present and Proposed Fares  
for Year 1956

	<u>Under Present Fares</u>		<u>Under Proposed Fares</u>	
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Applicant</u>	<u>Commission Engineer</u>
Operating Revenue	\$1,951,850	\$1,967,730	\$2,179,400	\$2,191,035
Operating Expenses				
Equipment Maintenance and Garage Expense	331,715	347,930	331,715	347,930
Transportation	1,043,975	1,031,290	1,043,975	1,031,290
Traffic and Advertising	4,550	4,400	4,550	4,400
Insurance and Safety	152,090	128,750	152,090	128,750
Administrative and General	118,960	106,730	118,960	106,730
Taxes	185,435	185,470	191,165	189,920
Depreciation	136,969	95,930	136,969	95,930
Total Expenses	\$1,973,694	\$1,900,500	\$1,979,424	\$1,904,950
Net Operating Revenues	(\$ 20,744) <sup>(a)</sup>	67,230	201,076 <sup>(a)</sup>	286,085
Income Taxes	-	30,140	102,300	148,140
Net Income	(\$ 20,744)	37,090	98,776	137,945
Rate Base	\$ 530,836 <sup>(b)</sup>	\$ 581,750 <sup>(b)</sup>	\$530,836 <sup>(b)</sup>	\$ 581,750 <sup>(b)</sup>
Rate of Return	-	6.4%	18.60%	23.7%
Operating Ratio	101.06%	98.1%	95.47%	93.7%

( ) Indicates loss

(a) Includes \$1,100 other income

(b) Includes valuations for property leased from affiliates

Another transportation engineer of the Commission's staff presented a report covering an investigation which he had made of the quality of applicant's service. He testified that his investigation, which covered a two-day period in October, disclosed numerous instances of failure of the bus operators to operate their buses in conformity with the company's posted schedules. As examples, he said that he had

observed operators unnecessarily leaving the terminals late, and others leaving ahead of the scheduled departure times. In various instances the operators apparently turned back along their routes without completing scheduled runs. The engineer attributed the failure of the operators to meet their schedules largely to inadequate supervision by the company and said that during the past two years the company has decreased the number of its dispatcher-supervisors from eight to three. He said that the company should employ at least three more supervisors in order to bring its service up to minimum reasonable standards, and he recommended that an allowance of \$14,000 be included in the expense estimates for the coming year to cover the costs of the additional supervision.

Other witnesses who participated in the proceeding were a representative of the City of Long Beach, who submitted evidence relating to the service areas of applicant, and a number of applicant's patrons. The latter witnesses testified at length concerning irregularities of applicant's services, corroborating in this respect the testimony of the Commission engineer concerning service. They emphasized need for reliable and on-time performance and pointed out by way of example that the operation of buses ahead of schedule results in their missing buses and is the cause of serious delay and inconvenience to them, particularly in the evenings when the intervals between the scheduled runs are substantial. Several of the witnesses also urged that the company be required to extend its operations forthwith into an eastern suburb

of Long Beach, which service the company has been authorized to perform but which, as of the date of the hearing in this proceeding, had not yet been inaugurated.<sup>1</sup>

Discussion and Conclusions

As the foregoing review of the record indicates, applicant's showing herein was confined largely to the revenue and expense aspects of its operations. The evidence is clear, however, that a factor to be considered along with the revenue and expense data is the service that applicant is providing and is proposing to provide. The company's expense estimates for 1956 presume the full operation of currently authorized schedules, including the above-mentioned extensions of Routes Nos. 1 and 4. Obviously, with the seeking of the benefits of increased fares on the basis of stated operations, there is a commitment on the part of applicant that with the assessing of increased fares authorized on the showing made, the operations will be conducted as stated. The reliability of the service, moreover, is a measure of its value to applicant-company's patrons and in turn a measure of the fares that reasonably may be assessed. Fares that are reasonable and justified for a service of good quality may well be unreasonably high for a service of lesser quality.

It is evident from the nature of the testimony of applicant's patrons, and from the testimony of the Commission engineer who reported on applicant's service, that the company has permitted the quality of its operations to deteriorate to a substandard level. The company's failure to operate in reasonable conformity with its

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<sup>1</sup> By Decision No. 51638, dated July 5, 1955, and effective twenty days thereafter, a certificate of public convenience and necessity was granted to applicant herein authorizing it to extend its Routes Nos. 1 and 4 into the areas involved.

posted schedules cannot be condoned. At the hearings in this proceeding applicant's representatives indicated a willingness to improve the service and especially to satisfy such complaints as may be brought to their attention. We are not persuaded, however, that their indicated program of improvement will be sufficiently productive as to yield results commensurate with the maintenance of the service standards that should be provided. Lacking in said program is the amount and degree of operational supervision that from the testimony of one of the Commission engineers appears to be minimum for the service generally. We believe, moreover, that applicant's obligations to its patrons are to conduct its operations in such manner as reasonably to forestall conditions leading to inferior service. Such increased fares as may be authorized hereinafter will be sufficient to enable applicant to provide its patrons with service of good quality. The exercise of the authority granted will be conditioned upon applicant's taking aggressive<sup>2</sup> and affirmative steps to establish and maintain such a service.

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Parenthetically, it should be observed that with the improvement in service it may reasonably be anticipated that applicant will realize some improvement in revenues over those forecast for 1956. The revenue forecasts both of applicant's treasurer and of the Commission engineer reflect the downward trend in traffic that has prevailed over the past several years. Undoubtedly, applicant's traffic losses during the past year are traceable in part to service irregularities which have alienated the company's patrons and have caused them to turn to other transportation. Correction of these irregularities should avoid further patronage losses stemming therefrom.

As has been noted hereinbefore, except for certain items applicant's revenue and expense forecasts for 1956 and those which were submitted by the engineer of the Commission's staff are substantially alike. Applicant's treasurer, in arriving at his expense estimates, included allowances of \$61,400 and of \$136,969 for management expense and for depreciation expense respectively; the corresponding estimates of the staff witness are \$49,900 and \$95,930. Applicant's charges to management expense represent payments to an affiliated management company based on a prorate of the expenses of the affiliate among applicant and other companies subject to the management company's control. The estimates of the Commission engineer were developed in a similar manner. However, the engineer adjusted certain of the expense items to a level that he considered proper for rate making purposes. With respect to depreciation, applicant has followed the practice of depreciating its buses on a ten-year basis. The engineer computed his estimate of depreciation expense at rates reflecting service lives of twelve years for the buses. He said that the longer period is more in harmony with the actual experience of the company in its operations.

As between the management and depreciation expense estimates of applicant's treasurer and those of the Commission engineer, the latter appear to be the better supported. In using the engineer's depreciation expense it is also necessary to use the engineer's rate base, as the two items must be correlated. Adjustment of applicant's estimates accordingly and to allow for the costs of the additional supervision recommended by the other engineering



witness of the Commission's staff results in the figures set forth in Table No. 2 below. These figures appear to be reasonably representative of the revenues and expenses applicable to the company's operations during the coming year and will be adopted as the basis for our conclusions hereinafter.

Table No. 2

Adjusted Estimated Operating Results under Present and Proposed Fares  
for Year 1956

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Operating Revenue	\$1,951,850	\$2,179,400
Operating Expenses		
Equipment Maintenance and Garage Expense	331,715	331,715
Transportation	1,057,975	1,057,975
Traffic and Advertising	4,550	4,550
Insurance and Safety	152,090	152,090
Administrative and General Taxes	107,460	107,460
Depreciation	185,435	191,165
	<u>95,930</u>	<u>95,930</u>
Total Expenses	\$1,935,155	\$1,940,885
Net Operating Revenues	\$ 16,695	\$ 238,515
Income Taxes	5,476	123,107
Net Income	\$ 11,219	\$ 115,408
Rate Base	581,750 <sup>(a)</sup>	581,750 <sup>(a)</sup>
Rate of Return	1.93%	19.84%
Operating Ratio	99.43%	94.7%

(a) Includes valuations for property leased from affiliates.

It is evident from the data in the foregoing table that if present fares are maintained during the coming year, applicant's operating revenues will be hardly more than enough to meet the costs of the service, that the excess of revenues over expenses will not be a sufficient margin to assure the stability of the operations against normal contingencies, and that the company's

net earnings will be unreasonably low. Clearly, the circumstances justify an increase in fares if applicant's services are to be conducted at a satisfactory level.

It would also appear from the rate of return figures shown in Table No. 2 that if the sought increased fares are established, the earnings that applicant will realize will be very substantial. In this regard, applicant's vice president took particular exception to a determination of the reasonableness of the anticipated earnings by the rate of return. He asserted that where transit companies are concerned, the rate of return does not provide a reliable test of fair earnings because of rapid fluctuations in the rate base resulting from the short service lives of the operating properties; the fact that the operations of transit companies are subject to different and greater risks than are the operations of other public utilities; the fact that transit companies have no minimum monthly charge, as do other utilities, to protect the level of their revenues; and the fact that transit companies operate in a highly competitive field and do not enjoy the degree of monopoly found in the operations of other utilities. He said that for these reasons it is his opinion, and the opinion of others in the transit industry, that reasonable earnings should be determined by the use of operating ratio and that an operating ratio of 90 to 92 per cent, after allowance for income taxes, is appropriate. He pointed out that a higher operating ratio will result under applicant's operations during the coming year at the fares sought. He explained that the application herein was filed prior to the recent wage agreement providing for wage increases effective October 1, 1955 and 1956, that such wage agreement was entered into in order to avoid interruption of his company's services by strike, and that rather than to experience the delay

that amendment of the application to reflect the changed conditions would entail, his company had elected to go forward on the original application.

We recognize the merit in the argument advanced by applicant in support of reliance on operating ratio for determination of reasonable earnings in the case of transit companies. In the instant case the company's rate base, even with the value of property leased from affiliates and not owned by applicant included,<sup>3</sup> is less than one-quarter of the original cost of the properties. It is not our practice, under such circumstances, to limit the rate of return to the levels deemed appropriate for other utility operations, and we give appropriate weight to operating ratio in our determination of reasonable rates. We do not, however, accept the conclusion that operating ratio should be the solo determinant of the reasonableness of rates. We take into consideration all pertinent factors, such as rate of return, amount of net revenue, and financial requirements, as well as operating ratio.

Applicant has herein sought increased fares as a means of improving its financial position. In a prior proceeding the company's attention was called to certain operational economies which it apparently could effect through reduction in schedules without materially impairing its service.<sup>4</sup> It is now evident from

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<sup>3</sup> Where a public utility acquires the use of operating properties under rental agreements with a non-utility affiliate, the agreements are disregarded at times and the expenses of the utility operations are developed as if the rented properties were owned. This procedure is followed as a means of testing the propriety of the rental agreements. In this instance it appears that treatment of the leased properties as owned properties has but little affect upon the level of applicant's expenses. It does, however, materially increase the rate base and decrease the rate of return.

<sup>4</sup> Decision No. 51638, dated July 5, 1955, in Application No. 36738.

the record which has been adduced in this matter that a modification in schedules as suggested is less desirable than an increase in fares, and would not meet with the approval either of applicant's patrons or of the City of Long Beach. It appears that increased revenues of the volume that the sought fares would return are necessary for the adequate maintenance of applicant's operations at a satisfactory service level.

The Commission hereby finds that the service and facilities of applicant are unreasonable, inadequate and insufficient because of an insufficient number of supervisory personnel and the absence of effective enforcement of applicant's schedules and that public convenience and necessity require that the additional personnel provided for and required by the order herein be employed by applicant and that the other conditions specified by said order be carried into effect promptly.

It is concluded, therefore, and the Commission so finds as a fact, that the sought fares have been shown to be justified. The anticipated operating results under the proposed fares, as evidenced by the operating ratio of 94.7 per cent, appears reasonable in the circumstances shown. The application will be granted subject to certain conditions relating to service.

O R D E R

Based on the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Long Beach Motor Bus Company be, and it hereby is, authorized to amend its Local Passenger Tariff Cal. P.U.C. No. 12 (or reissues thereof), on not less than five days' notice to the Commission and to the public, so as to cancel present token fares and to establish increased cash fares as follows:

Adult fare, per one-way ride,

Between points within one zone .....	15 cents
Between points in contiguous zones .....	20 cents
Between points in two zones through an intervening zone .....	25 cents

IT IS HEREBY FURTHER ORDERED that, in addition to the customary filing and posting of tariffs, applicant shall give not less than five days' notice to the public by distributing and posting in its buses a printed explanation of the increased fares.

IT IS HEREBY FURTHER ORDERED that the authority herein granted be, and it hereby is, subject to the following conditions:

- (1) Applicant shall not make any reductions in its authorized schedules except after approval by the Commission.
- (2) Applicant shall establish and maintain the extended service on its Routes Nos. 1 and 4 authorized by paragraph (2) of Decision No. 51638, dated July 5, 1955, in Application No. 36738.

- (3) Applicant shall establish and maintain a staff of not less than six supervisors or supervisors/dispatchers (exclusive of applicant's general manager, superintendent, assistant superintendent, or other officers or employees having similar duties and responsibilities), each of whom shall be on duty not less than forty hours weekly. The operation of applicant's services shall be subject to the supervision of at least one of said supervisors or said supervisors/dispatchers from the beginning of the first schedule to the close of the last schedule daily.
- (4) Applicant shall formulate, put into effect and maintain a program, satisfactory to the Commission, which is designed to assure the conduct of its services in conformity with its schedules.
- (5) Applicant shall report to the Commission ~~at least~~ *per m* once a month concerning the results achieved under the program specified in paragraph (4) above.
- (6) Applicant shall not put into effect the increased fare schedule hereinabove authorized until it shall first have
  - (a) Complied with the conditions specified in paragraphs (2), (3) and (4) and filed an affidavit with the Commission stating that it has done so; and
  - (b) Filed with the Commission an acceptance of, and its agreement to, the remaining conditions herein specified.

IT IS HEREBY FURTHER ORDERED that the Commission's staff be and it hereby is directed to make an independent check, at least once a month until otherwise directed, of the quality of applicant's service and to report thereon to the Commission.

IT IS HEREBY FURTHER ORDERED that the Commission retain jurisdiction in this proceeding and take such further steps and make such further orders as shall be necessary to insure compliance with the foregoing provisions of this order.

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

Dated at San Francisco, California, this 12<sup>th</sup> day of December, 1955.

John E. Mitchell  
President  
Justus F. Caswell  
Ray E. Johnson  
William J. Spales  
B. Hardy  
Commissioners