

Decision No. 52482**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DE LUXE WATER TAXI COMPANY, a)
California Corporation, for a)
Rate Increase.)

Application No. 37355

Robert R. Hurwitz, for applicant.
Henry E. Jordan, for The Bureau of Franchises
and Public Utilities, City of Long Beach,
interested party.
Walhfred Jacobson, by Leslie E. Still, Jr., for
the City of Long Beach, interested party.
Mary Moran Pajalich, 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 transporting persons and property by vessel as a common carrier between points in the Los Angeles and Long Beach harbor areas and between Long Beach and various points on Santa Catalina Island. By this application it seeks authority to effect certain increases in its fares.

Public hearing on the application was held before Examiner C. S. Abernathy at Long Beach on November 22, 1955. Advance notices of the hearing were posted in applicant's vessels and published in a newspaper of general circulation in the principal area served. Also, notices were sent by the Commission's secretary to persons and organizations believed to be interested.

Evidence in the proceeding was submitted by applicant through its general manager, its operations manager, and a certified public accountant. A transportation engineer of the Commission's staff submitted the results of a study which he had made of the company's operations and records. Representatives of the city attorney of Long Beach and of The Bureau of Franchises and Public Utilities of

Long Beach assisted in the development of the record. One of applicant's patrons presented a brief statement in support of the proposed rates. No one appeared in opposition to the application.

The transportation which is involved herein consists of the transportation of persons to and from vessels of the United States Navy anchored in the Long Beach or Los Angeles Harbors. This transportation accounts for almost 90 per cent of applicant's total revenues. The present fare is 25 cents per one-way ride. Applicant proposes to increase the fare to 35 cents per one-way ride.

For its other services applicant's charges are mainly assessed on an hourly basis. No change is sought in the hourly rates. These rates were adjusted in 1954 pursuant to authorization granted by Decision No. 50572, dated September 21, 1954, in Application No. 35287. The fares herein in issue assertedly have not been adjusted since they were first established in 1933.

According to testimony of applicant's general manager, during 1955 his company was beset by a series of adverse operating circumstances. It had to relinquish the terminal which it occupied for many years and was required to move to a less favorable location. Its operations were interrupted by a strike. A substantial increase in wages and fringe benefits was granted to its employees. As a consequence of this combination of circumstances his company's operations are now being conducted at a loss and that the rate of loss is such that unless the sought fares are authorized, the company faces the probability that it will be compelled to cease operations.

The witness submitted and explained an exhibit which he and the certified public accountant had developed to show the financial results of applicant's operations during the past year, and estimates of future operating results (a) if present fares are maintained and (b) if the sought fares are established. A similar exhibit was

submitted by the Commission engineer. In Tables Nos. 1 and 2 below is shown a summary of operating data which were thus presented by the respective witnesses. Table No. 1 sets forth applicant's actual operating experience under present fares and the anticipated experience if the present fares are continued. Table No. 2 shows estimated operating results under the sought fares. The latter table, it will be noted, also includes estimates of operating results under two other fare structures which were suggested by the Commission engineer as alternatives to the fares which applicant proposes. The alternative estimates were developed by the Commission engineer to show probable operating results under fare increases which are somewhat less than those which applicant proposes.

Table No. 1
Actual and Estimated Operating Results
under Present 25-Cent Fare

	Actual Operating Results, 12 Months through		Estimated Operating Results 12 Months through	
	September, 1955, per applicant	May, 1955, per Commission engineer	September, 1956, per applicant	November, 1956, per Commission engineer
<u>Revenues</u>				
Shore boat service to and from naval vessels	\$ 136,852	\$ 170,399	\$136,852	\$165,300
Other	15,234	20,560	15,234	17,950
Total Revenues	\$ 152,086	\$ 190,959	\$152,086	\$183,250
<u>Expenses</u>				
Maintenance	\$ 22,726	\$ 23,398	\$ 23,500	\$ 22,130
Transportation	87,676	105,824	100,166	116,610
General Expenses	38,935	41,266	39,855	36,330
Depreciation	6,456	6,356	4,200	1,160
Operating Taxes	4,564	5,149	5,120	4,750
Total Expenses	\$ 160,357	\$ 181,993	\$172,841	\$180,980
<u>Net Operating Revenues</u>	(\$ 8,271)	\$ 8,966	(\$ 20,755)	\$ 2,270
<u>Income Taxes</u>	\$ 825	\$ 2,892	\$ 25	\$ 700
<u>Net Income</u>	(\$ 9,096)	\$ 6,074	(\$ 20,780)	\$ 1,570
<u>Operating Ratio</u>	108.1%	96.8%	113.66%	99.1%

() Indicates loss

Table No. 2
 Estimated Operating Results under Proposed Fares
 (Including Results Under Alternate Proposals of Commission Engineer)

	Under 35-cent Proposed Fare		Under Alternate Proposals	
	Applicant	(a) Commission engineer	(b) Case I	(b) Case II
<u>Revenues</u>				
Shore boat service to and from naval vessels	\$ 158,064	\$ 208,280	\$ 188,440	\$ 179,590
Other	15,234	17,950	17,950	17,950
Total Revenues	\$ 173,298	\$ 226,230	\$ 206,390	\$ 197,540
<u>Expenses</u>				
Maintenance	\$ 23,500	\$ 22,130	\$ 22,130	\$ 22,130
Transportation	100,166	116,610	116,610	116,610
General expenses	39,855	38,900	37,710	37,180
Depreciation	4,200	1,160	1,160	1,160
Operating Taxes	5,120	4,750	4,750	4,750
Total Expenses	\$ 172,841	\$ 183,550	\$ 182,360	\$ 181,830
<u>Net Operating Revenues</u>	\$ 457	\$ 42,680	\$ 24,030	\$ 15,710
<u>Income Taxes</u>	\$ 139	\$ 17,430	\$ 7,830	\$ 5,100
<u>Net Income</u>	\$ 318	\$ 25,250	\$ 16,200	\$ 10,610
<u>Operating Ratio</u>	99.82%	88.8%	92.2%	94.6%

(a) Estimate for 12 months through September, 1956.

(b) Estimate for 12 months through November, 1956.

Case I - 30-cent cash fare

Case II - 30-cent cash fare and 25-cent token fare (2 tokens,
50 cents)

In arriving at his estimates for the future, applicant's manager assumed that, except where expenses have increased or are likely to increase and except for some losses in patronage due to resistance to higher fares, his company's operations will continue on about the same plane as that for the year ended September, 1955. He asserted that notwithstanding the fact that a strike and a change in terminal location had interrupted his company's operations during the year, the circumstances are not unlike those which apply generally. He said that virtual shutdowns in operations are a characteristic of the services which his company provides inasmuch as there is very little demand for service when vessels of the United States Navy

are not in port. He asserted that the shutdown during the strike and the change in terminal location largely coincided with an absence of the fleet units.

Applicant's manager included in his expense estimates provision for a general wage increase of 7.69 per cent which became effective June 20, 1955, for an anticipated wage increase of 7.14 per cent to become effective with renewal of the present wage contract on June 20, 1956, for increases in fuel costs which have been experienced, and for increased costs resulting from operations out of the new terminal. With respect to expected passenger volume during the coming year, the manager estimated that a 17½ per cent decline in traffic would follow the establishment of the sought fares. He said that the shore boat service of his company is in addition to a free shore boat service which the Navy provides and that his company's services are utilized by naval personnel mainly because of a greater convenience in the schedules thereof. With the availability of the alternative free service the manager expected that the passenger resistance to the higher fares would be substantial.

The Commission engineer, in excluding from the basis of his calculations applicant's operating results since May, 1955, proceeded from the point of view that the cessation of operations during the subsequent period was more than the normal interruption of service as alleged by applicant's manager. He analyzed the company's passenger volume from January, 1953, through May, 1955, to develop the trend thereof. According to his analysis, applicant's monthly passenger volume during this period has been as follows:

Year, 1953	54,000 passengers per month
Year, 1954	55,000 passengers per month
Year through May, 1955	56,800 passengers per month

On this basis he predicted that under present fares applicant's passenger volume would average 55,100 passengers per month through the twelve months ending November, 1956, and his revenue estimates were developed accordingly.¹ He forecast that under the increased fares which applicant seeks the monthly volume would be about 10 per cent less because of passenger resistance to the higher fares. He estimated lesser decreases in traffic with the corresponding lesser fare increases which he suggested in his alternate proposals.

In the matter of expenses the engineer assumed that applicant's expenses during the coming year would correspond generally to those for the year ended with May, 1955. As did applicant's manager, the engineer included allowances in his estimates to reflect current cost levels. In two material respects, however, the engineer's expense estimates differ from those of applicant's manager. No allowance was made by the engineer for a further increase in wage costs when the present labor contract expires inasmuch as applicant has not yet entered into a firm commitment concerning wages to be paid after the contract's expiration in June, 1956. The engineer's allowance for depreciation was also less than that claimed by applicant. He reported that applicant has followed the practice of depreciating its properties at a rate somewhat higher than that which would apply on the basis of the properties' service lives, and stated that as a consequence the properties are now largely depreciated on applicant's books although a number of years of economic service life remain therein. The engineer's depreciation expense estimates were calculated on the basis of the relation of the remaining values of the properties to their remaining service lives.

1

As is evident from comparison of the estimate for 1956 with the number of passengers transported during the earlier periods, the engineer anticipated a slight decline in traffic below the volume of the twelve months through May, 1955. He said that although there has been an upward trend in traffic, the change in terminal location would result in some loss in volume during the coming year.

Full consideration of the two showings herein -- that of applicant and that of the Commission engineer -- leads to the conclusion that the latter provides the more accurate appraisal of the company's earning position under present fares and its probable earnings under such increased fares as may be hereinafter authorized. It appears that applicant's general manager, in basing his estimates on his company's operating results for the twelve months through September, 1955, has not correctly evaluated the effect of the shutdown in operations during the period of strike and change in terminal location. Notwithstanding the manager's allegations to the contrary, the level of applicant's operations during those twelve months does not appear to be representative of its operations generally.² The evidence is clear, moreover, that by including allowance for possible further wage increases when the present wage contract is renewed in June, 1956, applicant's expense estimates overstate the wage costs that may be considered in a proceeding of this nature. The Commission has repeatedly pointed out in fare increase proceedings heretofore that it will not allow fare or rate increases upon the basis of wage adjustments which are speculative. Applicant's expense estimates are overstated for the further reason that the depreciation charges are computed at rates which are excessive in relation to the service lives of the properties involved. In contrast, the estimates of the Commission engineer, both with respect to revenues and to expenses, appear reasonable and will be adopted for our conclusions hereinafter.

The Commission engineer's figures, as reproduced in Tables Nos. 1 and 2 above, show clearly that under present fares applicant's

2

The volume of applicant's traffic for the twelve months which included the shutdown period was almost 20 per cent below that for the twelve months just preceding the shutdown and about 16 per cent below the volume handled during 1953 and during 1954. No substantial reason for this sharp decline in traffic, other than the shutdown in operations, appears on this record.

earnings will not be sufficient to sustain the operations and to provide applicant with reasonable compensation for its services. On the other hand, establishment of the fares which applicant seeks would result in greater earnings than those which appear to be justified on this record. More equitable results would follow from the establishment of either of the bases of fares suggested by the engineer in his alternate proposals. In this instance it appears that operating conditions justify authorization of the higher of the two alternates. First, the testimony of applicant's manager shows that establishment of a basis of fares which includes tokens would result in practical operating difficulties in the special circumstances applicable to the transportation involved. Second, in view of the fact that applicant's operations are conducted in competition with a free shore boat service, the element of risk attending applicant's services is greater than would be the case otherwise. Upon careful consideration of these factors and of the record as a whole, the Commission is of the opinion and finds as a fact that establishment of an increased fare of 30 cents per one-way ride has been shown to be justified and that operating results under such fare, as reflected by the anticipated operating ratio of 92.2 per cent, is reasonable in the circumstances shown herein. To this extent the application will be granted.

O R D E R

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

IT IS HEREBY ORDERED that DeLuxe Water Taxi Company be, and it hereby is, authorized to amend its Local Passenger Tariff No. 6, Cal. P.U.C. No. 6, to establish increased fares as follows:

For transportation between landing points within the City of Long Beach and vessels of the United States Navy anchored in the Long Beach and/or Los Angeles harbors, per passenger30 cents per one-way ride

IT IS HEREBY FURTHER ORDERED that

1. In addition to the required filing of tariffs, DeLuxe Water Taxi Company shall give notice to the public of the increased fares herein authorized by posting in its terminals and on its vessels a statement of the fare changes to be established pursuant to the provisions of this order. Said notice shall be posted on not less than five days before the effective date of said changes and shall remain posted until not less than ten days after said effective date.
2. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.
3. Except as otherwise provided by this order, the application in the above-numbered proceeding shall be, and it hereby is, denied.

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

Dated at San Francisco, California, this 16th day of January, 1956.

John E. Mitchell
 President

Justin J. Adams

Ralph Linterman

W. H. ...

Commissioners

Commissioner Matthew J. Dooley being necessarily absent, did not participate in the disposition of this proceeding.