AH

Decision No. 54395

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Peerless Stages, Incorporated, requesting authority to increase certain of its rates of fare.

Application No. 38380

John F. Balaam, for applicant.
Edward F. Walsh, for the Commission's staff.

O P I N I O N

Peerless Stages, Incorporated, operates as a passenger stage corporation between Oakland, Fremont, San Jose, Santa Cruz, Palo Alto, and intermediate points. By this application it seeks authority to increase certain of its passenger fares.

Public hearing of the application was held before Examiner Carter R. Bishop at San Jose on December 5, 1956. Advance notices of the hearing were posted in applicant's vehicles and were published in newspapers of general circulation in the area served by applicant. Notices also were sent by the Commission's secretary to city and county officials in the area.

Applicant's fares were last adjusted pursuant to Decision No. 51228, dated March 21, 1955, in Application No. 36526. That decision authorized a 15 per cent increase in all fares except local fares between San Jose, Los Gatos, Saratoga, and intermediate points. No increase was sought in these latter fares. Applicant now proposes to increase its fares generally by five per cent,[1] and to establish a minimum one-way fare of 20 cents in lieu of the present minimum of 15 cents. As exceptions to these proposals no increases are sought in 20-ride family fares and in 30-ride school fares.[2] Also, applicant proposes, for competitive reasons, to continue in effect the present one-way fare between points in San Jose, the Santa Clara County Hospital, and points intermediate thereto.

According to the application, the carrier's operating expenses have materially increased since the 1955 fare advance. Wages of drivers and of shop personnel were, under the current wage agreement, increased in June, 1955, and again in June, 1956, and will be further advanced in June, 1957. Additionally, labor costs were augmented by a health and welfare plan which became effective January 1, 1957. Substantial increases have been experienced also in the prices paid by applicant for tires, fuel, oil and other materials and supplies.

While operating costs have been moving upward, the record shows, patronage has continued to show an over-all downward trend. This combination of circumstances assertedly makes necessary the further advance in fares sought herein. According to an exhibit of record, applicant's operating revenues and expenses for the 12-month period ending September 30, 1956, amounted to $640,847 and $609,194,

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1 All fares up to 60 cents (after the five per cent increase) which do not end in "0" or "5" applicant proposes to increase further to the next higher amount ending in "0" or "5".

2 No increases are proposed in these fares, the application states, because the revenue derived from them is relatively small and applicant fears that to increase them would tend to diminish their use to a large degree.

respectively. After making provision for income taxes the net operating income was $20,086, reflecting an operating ratio of 96.9 per cent. The record shows, however, that the foregoing figures reflect a credit in depreciation expense of $30,866, arising from the sale by applicant of a piece of real property in Oakland.[3] Had that transaction not taken place applicant's operations for the period in question would have resulted in net operating income, before taxes, of $787.

Estimates of operating results under present and proposed fares were introduced by applicant's assistant to the president and by an associate transportation engineer of the Commission's staff. Applicant's study covered the 12-month period ending June 30, 1957, while that of the staff was for the calendar year 1957. Under present fares applicant's estimate indicates, after adjustment to eliminate interest expense and interest income, a loss of $15,330 and an operating ratio of 102.4 per cent. The corresponding figures in the staff study show net operating income of $75, an operating ratio of 99.9 per cent and rate of return of 0.02 per cent. Under the proposed fares applicant's study shows, after the above-mentioned interest adjustments, estimated net operating income of $1,761, an operating ratio of 99.7 per cent and rate of return of 0.6 per cent. In the staff study net operating income under proposed fares was estimated as $14,900, with an operating ratio of 97.7 per cent. The rate of return would be 4.4 per cent. In the development of all of the foregoing estimates provision was made for income taxes.

[3] The sale in question was authorized by Decision No. 52189, dated November 7, 1955, in Application No. 37411.

The estimated operating results under present and proposed fares are set forth in the following table:

TABLE

Estimated Operating Results Under Present and Proposed Fares for the 12-Month Periods Ending June 30,1957 (Applicant) and December 31, 1957 (Staff)

	Applicant		Staff	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues				
Passenger	$453,820	$473,920	$439,400	$462,300
Charter	153,420	153,420	167,000	167,000
Mail	1,250	1,700	1,700	1,700
Express	21,550	21,550	22,300	22,300
Other	1,570	1,570	1,600	1,600
Total Operating Revenues	$631,610	$652,160	$632,000	$654,900
Operating Expenses				
Equipment Maintenance and Garage	$113,800	$113,800	$108,800	$108,800
Transportation	269,600	269,600	266,900	266,900
Station	17,300	19,300	17,500	17,900
Traffic and Advertising	18,000	18,000	17,400	17,400
Insurance and Safety	47,400	47,400	45,500	45,300
Administrative and General	48,700	48,700	50,000	50,000
Depreciation	49,090	49,090	41,800	41,800
Operating Rents	14,500	14,500	14,700	14,700
Operating Taxes and Licenses	68,550	69,150	69,300	70,000
Total Operating Expenses	$646,940	$649,540	$631,900	$632,800
Net Before Income Taxes	$(15,330)#	$ 2,620#	$ 100	$ 22,100
Income Taxes	---	859#	25	7,200
Net After Taxes	$(15,330)#	$ 1,761#	$ 75	$ 14,900
Rate Base	$321,400	$321,400	$337,000	$337,000
Rate of Return (After Taxes)	---	0.6%#	0.02%	4.4%
Operating Ratio (After Taxes)	102.4%*#	99.7%#	99.9 %	97.7%
Bus Miles	1,458,000	1,458,000	1,444,000	1,444,000

( ) Indicates loss.

* Loss - No income taxes involved.
\# After adjusting applicant's figures to eliminate interest expense and interest income.

As shown in the table, the average rate base for the rate year was estimated by applicant to be $321,400 and by the staff to be $337,000. The record discloses that neither of these estimates includes the cost of four new motor coaches which, according to applicant's witness, are covered by confirmed contracts with the manufacturer and which are expected to be delivered in 1957. If the total cost of these vehicles, amounting to approximately $140,000, and the corresponding depreciation expense were included in the development of the estimates, the operating results would be less favorable than those shown in the preceding table in all cases.

The revenue estimates of applicant do not differ materially from those of the staff. In the matter of expenses, the staff estimates in the aggregate are somewhat less than those of applicant. In view of the operating results shown in both cases, we will not discuss the detail differences except for the item of depreciation expense. This item reflects the largest difference in the individual expense groups. Applicant utilized service lives of ten years in accordance with its usual practice. The staff employed the same basis, except that, with respect to equipment which had been in service for more than five years, it increased the total service lives to twelve years and spread the accrued depreciation over the remaining life of the vehicles. Thus the total depreciation expense as estimated by the staff for the projected rate year is $41,800, while the corresponding figure in applicant's study is $49,090. The staff witness testified that the propriety of the basis which he had employed was supported by previous staff studies and by his own observation of the experience of applicant.

No one opposed the granting of the application. In fact, no persons other than representatives of applicant and of the Commission's staff were present at the hearings.

It is clear from the record that the operating results to be reasonably anticipated under present fares during either of the projected rate years will not provide a safe margin between revenues and expenses. With respect to the proposed fares, the estimated operating results as developed by the staff are considerably more favorable than those forecast by applicant. However, even under the staff estimate the operating results justify the proposed fares.

Upon careful consideration of all the evidence of record, the Commission is of the opinion and finds as a fact that the proposed increases in fares have been justified. The application will be granted. In view of the immediate need for increased revenues, the order which follows will be made effective ten days from the date of its issuance and applicant will be authorized to publish the proposed fares on less than statutory notice.

O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Peerless Stages, Incorporated, be and it is hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the passenger fares as proposed in the application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that, in addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its buses and terminals a printed explanation of its fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

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

Dated at San Francisco, California, this 15th day of January, 1957.

Peter E. Mitchell
President

Rex Hardy

C. Lyn Fox

Commissioners

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