J.

ORIGINAL

Decision No. 55702

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of LOS ANGELES TRANSIT LINES, a corporation, and METROPOLITAN COACH LINES, a corporation, for authority to adjust rates.	Application No. 39223
In the Matter of the Application of GLENDALE CITY LINES, INC., requesting authority to adjust only those rates of fare in effect in present joint fare arrangement with Metropolitan Coach Lines.	Application No. 39390

(Appearances attached as Appendix A)

OPINION

The Los Angeles Transit Lines, a California corporation, and the Metropolitan Coach Lines, a California corporation, herein request an increase in their rates of fare for tokens. The present rate is seven for one dollar. In this application it is proposed to adjust this rate so that tokens will be sold three for fifty cents. No change is proposed for applicants local cash base rate of fare which will remain at seventeen cents plus six cents for each additional zone traversed. Likewise no change is proposed in the present school fares.

The Glendale City Lines, a California corporation, requests that in the event the increase in token fares is granted to Los Angeles Transit Lines and Metropolitan Coach Lines, a similar increase be granted to Glendale City Lines, Inc., insofar as the proposed token rate of fare applies to joint fares now in effect between Glendale City Lines, Inc., and Metropolitan Coach Lines as described in Joint Tariff No. 20, effective September 20, 1956, as filed by Metropolitan Coach Lines with this Commission, Glendale City Lines, Inc., concurrence A.P.-2, No. 3.

Public hearings were held before Examiner Grant E. Syphers on September 11, 12, 13 and 16, 1957, in Los Angeles. On these dates evidence was adduced and on the last named date the matter was submitted.

The applicants' evidence tends to show that the proposed increase in fares will result in an increase in net operating revenue for Los Angeles Transit Lines of $635,900, for Metropolitan Coach Lines of $128,230, and for Glendale City Lines of approximately $320. In the case of Metropolitan Coach Lines, the increase would all be realized on its so-called local lines since the proposals do not affect the interurban service of that company.

It is the position of the applicants that these increases are necessary inasmuch as their costs are increasing. The major portion of these costs is in the form of wages which amount to over 50 percent of the operating expenses of each of the companies. The Los Angeles Transit Lines entered into a new labor contract, effective as of June 1, 1957, which will result in increased costs for wages during the year 1958 of approximately $989,000. The Metropolitan Coach Lines expects an increase in wages effective the 1st of 1958.

In addition to increased labor costs, other costs also are increasing and, in general, the applicants contended that present fares are insufficient to afford them a reasonable return.

The Los Angeles Transit Lines submitted the following estimate of its revenue for the rate year commencing January 1 and ending December 31, 1958:

Item	Present Fares	Proposed Fares
Operating revenue	$ 23,255,900	$ 24,586,600
Operating expenses, depreciation and taxes	22,084,400	22,035,100
Operating Income	$ 1,171,500	$ 2,551,500
Interest income	9,100	9,100
Total Income	$ 1,180,600	$ 2,560,600
Taxes on net income	609,000	1,353,100
Net Operating Income	$ 571,600	$ 1,207,500
Amortization and interest	67,100	67,100
Net Income	$ 504,500	$ 1,140,400

It was the contention of this applicant that the best method of computing the reasonableness of these returns would be to use operating ratio. The applicant did submit its estimate of the rate base for this company upon two bases: (1) historical cost depreciated, (2) historical cost depreciated restated in terms of current value dollars. From the applicant's figures the following information can be deduced:

Item	Present Fares	Proposed Fares
Operating ratio	97.8%	95.4%
Rate base - historical cost	$ 16,696,300	$ 16,696,300
Rate of return	3.02%	6.83%
Rate base - historical cost depreciated restated in terms of current value dollar	1.78%	4.03%

The staff of this Commission presented studies relative to the estimated results of operations of Los Angeles Transit Lines which estimates are set out hereinbelow:

Item	Present Fares	Proposed Fares
Operating revenue	$ 23,276,000	$ 24,714,000
Operating expenses, depreciation and taxes	21,474,700	21,422,100
Net Income before taxes	$ 1,801,300	$ 3,291,900
Income taxes	943,700	1,747,400
Net Operating Income	$ 857,600	$ 1,544,500
Allowance for amortization and interest	60,200	60,200
Net Income	$ 797,400	$ 1,484,300
Operating ratio	96.6%	94.0%
Rate base	$ 12,164,500	$ 12,164,500
Rate of return	6.6%	12.2%

It will be noted that the principal differences between the estimates of Los Angeles Transit Lines and those of the staff are to be found in the operating revenues, the operating expenses, and the rate base. As to the operating revenues, the estimates of the staff are slightly higher under both present and proposed fares. Under proposed fares the staff estimates a revenue which is $114,600 greater than that estimated by the company. This difference is principally due to two items: (1) the staff used an estimated deflection of 25 percent whereas the company used 30 percent and (2) the staff estimated the token-use under proposed fares would amount to approximately 45 percent whereas the company witness estimated 52 percent. The company contended that both its estimates as to deflection and to token-use were based upon current studies whereas the staff used general percentages which have been developed from studies of this company and other lines throughout the state.

As to the differences in expense estimates, the staff estimate is $613,000 lower than that of the company. More than half of this amount is to be found in the estimates as to amounts necessary to maintain the motor coaches. Another significant difference is to be found in the depreciation which difference amounts to $164,500, the staff estimate being lower by this amount. This is primarily due to the fact that the allowances made by the staff for rights of way are based on original cost, an amount considerably less than the corresponding figures shown on the books of the company.

Another reason for the differences in the expense accounts apparently stems from the fact that the staff relied upon a 17-month period from January 1956 to May 1957 whereas the company estimates were predicated upon the operations for the first five months of 1957.

A substantial difference in the estimate of public liability and property damage insurance expense comes about because the staff witness based the estimates on past experience rather than using applicant's basis of a fixed percentage of revenue. The company contended that this was not proper since the previous trend was taken during a time when service changes from rail to motor coach operations were being put into effect.

All in all, the difference between the two estimates, so far as the net income under proposed fares is concerned, amounts to \$343,900, and under present fares \$225,800.

Another significant difference is to be found in the estimates of rate base. The company submitted a historical cost rate base of \$16,696,300, whereas the staff's estimate in this connection is \$12,164,500, or a difference of \$4,531,800. One of the major reasons for this difference is the fact that the company contends that the rate base should contain one-million dollars for working cash capital, whereas the staff disallows this amount. Likewise the staff estimates use the historical cost of the properties which are actually used and useful in the public service and exclude any use value for fully depreciated equipment. For example, this method results in a difference in value of land of \$671,137 and a substantially greater difference for rights of way. The company contended that the staff estimates which used the depreciated values and included no use value for fully depreciated properties still in service are not reasonable since the properties are in a low cycle as to their value.

Furthermore, it was the contention of the company that if rate base is to be used it should not be upon a historical cost basis but rather it should be restated in terms of current value dollars. Under this method the company estimated its rate base to be $28,268,300.

The Metropolitan Coach Lines presented the following data as to its estimated results of operations for the year 1958 under present and proposed fares:

Item	Present Fares	Proposed Fares
Operating revenue	$ 16,292,340	$ 16,574,410
Operating expenses, depreciation and taxes	15,701,980	15,705,780
Operating Income	$ 590,360	$ 868,630
Income taxes	120,510	270,550
Net Income	$ 469,850	$ 598,080
Operating ratio	97.12%	96.39%

This company estimated its rate base to be $9,641,750; and the rate of return under present fares to be 4.87 percent, and under proposed fares to be 6.20 percent.

The staff presented studies relative to the estimated results of operations of Metropolitan Coach Lines as set out hereinbelow:

Item	Present Fares	Proposed Fares
Operating revenue	$ 16,188,100	$ 16,515,800
Operating expenses, depreciation and taxes	15,374,060	15,369,580
Operating Income	$ 814,040	$ 1,146,220
Income taxes	250,750	429,860
Net Operating Income	$ 563,290	$ 716,360
Operating ratio	96.52%	95.66%
Rate base	$ 8,153,880	$ 8,153,880
Rate of return	6.91%	8.79%

The reasons for the differences between the staff estimates and those of Metropolitan Coach Lines are similar to the reasons previously discussed in connection with Los Angeles Transit Lines. The difference between estimated revenues under proposed fares amounts to $58,610. The staff calculated a decrease in passengers under proposed fares to be 25 percent of the percent increase in individual fares, whereas the company used 30 percent for this computation.

The difference in expense estimates, under proposed fares, is $406,030. With regard to expense of rail cars the staff used previous experience of the company whereas the company used a higher figure contending that in past years it has secured replacement parts from other rail cars. However, it now is rapidly running out of cars from which to "cannibalize" as the practice is called. The second point of difference lies in the amount allowed for power expenses. The staff took its estimates from the books of the company whereas the company contends that the figures on the books are approximately three months behind the actual billings. The largest difference in expense estimates is found in the item of depreciation amounting to a difference of $233,030. The staff used a 12-year life in estimating depreciation for the buses whereas the company's contention was that in fact it depreciates these buses on a 10-year life.

The staff's estimate as to rate base is $1,487,870 less than that of the company. This is due to the fact that the Metropolitan Coach Lines has made an allowance in its rate base of $792,040 for other working capital. In addition, it has allowed a use value for fully depreciated motor coaches and on other properties it has used the purchase price paid to its predecessor rather than original cost.

The City of Los Angeles presented some studies showing a comparison as to the earnings on equity capital and common stock of the Los Angeles Transit Lines and other selected companies. It also presented testimony relative to the purchase of both of these applicants by the Metropolitan Transit Authority. It was the position of the City that the situation here does not warrant a fare increase since the earnings of the two companies will be reasonable under the present fares, and the prospect of the sale to Metropolitan Transit Authority is a very real one.

A consideration of all of this evidence leads us to conclude that the methods used by the staff are, in the main, acceptable. The procedures followed in these studies are in accord with the previous holdings of this Commission and specifically with those set out in the last rate proceeding of this Commission as contained in Decision No. 51110, dated February 15, 1955, in Application No. 35601. This Commission has in the past followed the procedure of using original cost in its determination of rate base and it has not made any allowance for working cash. Furthermore, it has also followed the practice of giving consideration to rate base. While it was a contention of one of the applicants that the matter should be determined upon a consideration of operating ratio alone, we are not here prepared to ignore the other tests that have been used. However, we will give consideration to operating ratio along with all of the other factors.

As to the differences in expense items, the procedures of the staff in computing depreciation are the same as those previously approved by this Commission, as well as are most of the other methods which have been employed. In effect, the data we now approve merely bring up to date the data which were approved by Decision No. 51110, supra.

Therefore we now find that a reasonable rate base for the Los Angeles Transit Lines will be $12,164,500, and a reasonable rate base for the Metropolitan Coach Lines will be $8,153,880. Upon these rate bases, and even if we give effect to some of the contentions of the companies as to operating expenses, the returns which will probably be realized will be approximately 6 percent for each company with the operating ratios of approximately 97 percent. These we find under the circumstances now existing to be not unreasonable. These estimates are based on the year 1958, and for Los Angeles Transit Lines include certain increased expenses some of which will not become effective until June 1, 1958, and others

December 1, 1958. For Metropolitan Coach Lines it should be pointed out that its local lines, which are the only ones involved in this application, will according to this record realize a higher return than the figures above quoted for the entire Metropolitan system.

We are aware of the contention of the applicants that there may be future increases in expenses due to increased labor costs. We are also aware of the evidence which indicates the possibility that these companies will be purchased by the Metropolitan Transit Authority in the near future. While it is basic that these future possibilities cannot be controlling in the fixing of rates, nevertheless under the findings we now make, it appears that neither company is in urgent need of an immediate increase. Upon this record, therefore, the applications will be denied. Obviously the application of Glendale City Lines is dependent entirely upon the determination of the applications of the other two carriers and therefor it likewise will be denied.

O R D E R

Applications as above entitled having been filed, public hearings having been held thereon, the Commission being fully advised in the premises and hereby finding it to be not adverse to the public interest,

IT IS HEREBY ORDERED that the application of Los Angeles Transit Lines and Metropolitan Coach Lines for authority to adjust rates, Application No. 39223, and the application of Glendale City

Lines for authority to adjust rates, Application No. 39390, be and they hereby are denied.

The effective date of this order shall be twenty days after the date hereof.

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

President

Commissioners

Appendix A

List of Appearances

MAX EDDY UTT, of Gibson, Dunn & Crutcher, and STANLEY H. LANHAM, for Los Angeles Transit Lines.

WALDO K. GREINER and JAMES H. LYONS, by JAMES H. LYONS, for Metropolitan Coach Lines.

K. C. CAMPBELL, for the Glendale City Lines, Applicant.

ROGER ARNEBERGH, City Attorney, ALAN G. CAMPBELL, Assistant City Attorney, by ALAN G. CAMPBELL, - T. M. CHUBB, General Manager and Chief Engineer, interested party.

HENRY McCLERNAN, City Attorney and JOHN H. LAUTEN, Assistant City Attorney, by JOHN H. LAUTEN, for the City of Glendale, interested party.

WALHFRED JACOBSON, City Attorney, by LESLIE E. STILL, Deputy City Attorney, for the City of Long Beach, interested party.

HENRY E. JORDAN, Chief Engineer and Secretary, Bureau of Franchises & Public Utilities, for the City of Long Beach and Bureau of Franchises and Public Utilities, interested party.

CARL F. FENNEMA, for Downtown Businessmen's Association of Los Angeles, interested party.

B. A. WILLIAMSON, Brotherhood of Railroad Trainmen, for Brotherhood of Railroad Trainmen, interested party.

HERBERT B. ATKINSON, for South Los Angeles Transportation Company, interested party.

MRS. MARGUERITE McFARLANE, in propria persona, protestant.

BEATRICE E. NEIGHBORS, in propria persona, protestant.

MRS. MABEL LAUGHLIN, in propria persona, protestant.

HAROLD J. McCARTHY, for the Commission staff.