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Decision No. 55969

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of THE GRAY LINE, INC. to increase)
rates and fares for sightseeing)
tours in the State of California.)

Application No. 38241

Berol and Silver by Edward M. Berol and Bruce Geernaert, for applicant.

Martin J. Porter, for the Commission staff.

O P I N I O N

By this application, The Gray Lines, Inc., a passenger stage corporation, is requesting authority to increase the passenger fares of its sightseeing operation.

Public hearings were held on May 22 and 23, 1957 and June 3, 1957 at San Francisco before Examiner William L. Cole. On June 3, 1957, the matter was argued orally by counsel before Commissioner Matthew J. Dooley and Examiner William L. Cole, at which time it was submitted.

Applicant

Applicant engages in various passenger stage operations, some of which are operated pursuant to certificates of public convenience and necessity issued by this Commission and some of which involve non-common carrier work. Principally these operations consist of a sightseeing service conducted in the San Francisco Bay Area and between San Francisco and various scenic locations in northern California; a passenger service to various race tracks and football stadiums in the San Francisco Bay Area; and various charter operations.

Applicant is also affiliated with two other companies which operate limousine, hearse and U-Drive automobile services. Applicant's executive and administrative personnel devote their attention to all three companies.

Applicant's sightseeing operations are seasonal in nature, the peak demand occurring during the period between June and September. Applicant's race track and football operations are likewise seasonal but occur primarily in the Spring and Fall of the year.

As indicated previously, applicant is requesting authority to increase its sightseeing fares only. As justification for its request, applicant alleges that it has been subjected to substantial increases in operating costs since its last sightseeing fare adjustment in 1953, and as a result it is asserted that applicant's present sightseeing fares are confiscatory in nature.

Applicant's sightseeing operations are divided into 29 different tours. The present fares vary generally with the distance involved for each tour and range from $1.73 to $39.14. The fares would be increased under applicant's proposals by amounts ranging from 18 cents to $1.91 per passenger. It was testified that this proposed increase will result in an increase of approximately 10 per cent to applicant's present sightseeing revenue.

Evidence

Exhibits dealing with the financial results of applicant's operations were offered by its auditor and by a transportation engineer of the Commission staff. The estimated operating results for the sightseeing service in question under present and proposed fares as set forth below were taken from the exhibits offered by the witnesses in question.

Sightseeing Service - Estimated Revenues and Operating Expenses Anticipated Under Present and Proposed Fares for 12-Month Period[1]

	Present Fares		Proposed Fares	
	Applicant	Staff Engineer	Applicant	Staff Engineer
Revenues	$865,607	$863,800	$946,055	$956,700
Operating Expenses				
Equipment, Maintenance and Garage	91,971	94,850	91,971	94,850
Transportation Expense	261,623	233,600	261,623	233,600
Station Expense	129,248	126,700	129,248	135,600
Traffic Solicitation	122,177	103,500	123,987	105,200
Insurance and Safety	33,192	35,050	37,871	38,200
Administration and General	87,998	88,050	87,998	88,050
Operating Taxes[2]	40,154	34,550	40,683	35,050
Operating Rents	41,311	33,100	41,311	33,100
Depreciation	58,798	26,600	58,798	26,600
Total Operating Expense	866,472	776,000	873,490	790,250
Operating Income	(865)	87,800	72,565	166,450
Income Taxes[3]	25	35,450	27,696	77,850
Net Income After Taxes[4]	(890)	52,350	44,869	88,600
Operating Ratio After Taxes	100.1%	93.9%	95.3%	90.7%

1. Applicant's auditor used the 12-month period ending March 31, 1958, whereas the Commission's staff engineer used the 12-month period ending June 30, 1958.

2. Applicant included in its figures for operating taxes an estimate of $1,970 for State Franchise Taxes. This tax should properly be placed in the account "Income Taxes," except under the present fare where a loss is shown and the only income tax would be the minimum of $25. This change has been made with respect to applicant's figures.

3. In calculating its income taxes, applicant took into consideration an income deduction of $11,000 for interest paid on equipment obligations.

4. The amounts representing the item "Net Operating Income After Taxes" were calculated by subtracting the amount of income taxes from the amount of operating income. Applicant did not use this item in its exhibits. The amounts shown, therefore, were calculated from applicant's other figures.

The evidence indicated, with respect to the increased costs of operations that applicant has incurred since 1953, that the drivers' basic wages have increased by 16-2/3 per cent, the mechanics' wages have increased by 14.4 per cent and that the fuel costs for the revenue equipment have increased by 28.7 per cent. It should be noted, however, that during this same period of time applicant's volume of traffic has also been increasing, tending to offset the increased unit costs to some extent.

The evidence also indicated that applicant's sightseeing operations do not constitute necessity riding; rather, they are a luxury service. Applicant's representative testified that the demand for the sightseeing service fluctuated greatly from year to year and that the demand depended upon a great number of different factors. The evidence shows that approximately 90 per cent of applicant's sightseeing passengers reside in states other than California. The evidence also shows that specially designed buses equipped with glass tops, large windows, luxurious interior appointments and public address systems are required for the sightseeing operations. Applicant must maintain its regular fleet of sightseeing buses on the basis of the number needed to handle the peak demand for sightseeing service. During the off season, however, these buses are used in applicant's other operations.

Conclusions

It is apparent from the record that certain differences exist between the estimated results of operations as computed by the staff engineer and by applicant.

The first principal difference involves the estimated amount of additional revenue applicant will realize under its proposed fares. The staff engineer's estimate was arrived at by means of a weighted average based upon the number of tours conducted during a previous year. Applicant, on the other hand, based its estimate on the number of passengers riding the various tours during a previous year. Applicant's method would appear to give the more accurate result and, therefore, its estimate of additional revenue will be adopted as reasonable.

It appears that the differences between applicant and the staff engineer, occurring in the estimates of operating expenses, resulted principally because of the fact that certain of applicant's expenses have to be allocated between its sightseeing and other operations. The different methods of allocation have resulted in the different estimates.

The first such difference occurred in the supervision of transportation account which comes under the classification of Transportation Expense. The basis of this supervision of transportation expense is the salaries of applicant's dispatchers located at its depot and garage. Applicant estimated the amount of this expense at $41,483, whereas the staff engineer's estimate was $18,350. In arriving at his figure, the staff engineer testified that for the year 1956 this expense amounted to $66,149 for applicant's entire operations. The staff engineer testified further that after studying the matter, he concluded that a portion of this expense should be assigned to the affiliated companies and not applicant. The amount remaining was then prorated between the sightseeing and applicant's other operations on the basis of drivers' wages. Applicant's estimate, on the other hand, was based upon a study of the dispatching positions, the salaries of which go to make up the expense in question, and the amount of time spent on sightseeing operations in each position. Applicant's representatives testified that the dispatching of its sightseeing operations involved more work than the dispatching of its other operations and for this reason an allocation based upon drivers' wages is inaccurate. Basically the Commission agrees with this position. However, while the Commission feels that the staff engineer's estimate is too low, it also feels that applicant's estimate is too high. The Commission finds and concludes that a figure of $30,000 for this expense is reasonable and that will be the amount used.

Applicant and the staff engineer also differed as to the amount of the total traffic solicitation and advertising expense incurred by applicant that is to be allocated to the sightseeing operations. Applicant for the most part allocated 90 per cent of this expense to sightseeing whereas the Commission staff allocated only 80 per cent. Applicant offered considerable testimony in support of its position. However, the extent to which advertising benefits the over-all operation of the company cannot be precisely determined but must be based on judgment. For the purpose of this decision the Commission will accept the allocation used by the applicant.

Another principal disagreement between applicant and the Commission staff involves the question of depreciation expense. The staff engineer in calculating this expense used a 10-year life for the sightseeing equipment as contrasted to an 8-year life used by applicant. In addition, the staff engineer prorated the depreciation expense of the sightseeing equipment between the sightseeing operations and applicant's other operations in which it uses the sightseeing equipment. This proration was made on the basis of the number of miles the sightseeing equipment was used in the various operations. Applicant, on the other hand, charged all of the depreciation of the sightseeing equipment to its sightseeing operations. In this regard the evidence indicates that less than half of the miles traveled by the sightseeing equipment was attributable to the sightseeing operations.

With respect to the life of the sightseeing equipment, applicant maintains that, inasmuch as the sightseeing operation is in the nature of a luxury operation, the best and most recent sightseeing equipment must be used, and for this reason the question of obsolescence becomes important. However, the record does indicate that applicant is using equipment in its sightseeing operations which is older than eight years. It is the Commission's conclusion that a 10-year life for applicant's sightseeing equipment is reasonable and therefore depreciation expense based upon such a life will be used.

With respect to the question of whether the entire depreciation expense of the sightseeing equipment is to be prorated between sightseeing and other operations, it is the Commission's conclusion that such an allocation should be made. As indicated previously, the evidence shows that the sightseeing equipment was used extensively in operations other than sightseeing. In fact, the mileage operated in other services is greater than the mileage operated in the sightseeing service. It is the Commission's opinion that such operations should bear their share of the depreciation expense. While it is true that if applicant was engaged solely in a sightseeing service the entire depreciation of this equipment would be chargeable against such service, nevertheless in the Commission's opinion the fact that these other services are provided with the same equipment requires that a reasonable allocation of depreciation expense be made. We conclude that an allocation based upon mileage is reasonable.

The above conclusion also relates to the allocation of equipment taxes. The Commission finds and concludes that the taxes, as estimated by the staff engineer, are reasonable, and they will be adopted but increased by $800 to include an adjustment which the record developed.

Except as hereinabove mentioned, the Commission finds that all of applicant's other estimated operating expenses are reasonable and they will be used.

With the foregoing adjustments, the record shows that the estimated annual results of operation under the proposed fares for the sightseeing service would be as shown in the following tabulation:

Sightseeing Service - Adjusted Revenues and Operating Expenses Anticipated Under the Proposed Fares in the 12-Month Period Ending March 31, 1958

Revenue	$946,055.00
Expenses	
Equipment, Maintenance & Garage	91,971.00
Transportation Expense	250,140.00
Station Expenses	129,248.00
Traffic Solicitation	123,987.00
Insurance and Safety	37,871.00
Administrative and General	87,998.00
Operating Taxes	35,850.00
Operating Rents	41,311.00
Depreciation	26,600.00
Operating Expenses	824,976.00
Operating Income	121,079.00
Income Taxes	53,849.00
Net Income After Taxes	67,230.00
Operating Ratio After Taxes	92.9%

Upon careful consideration of all the evidence of record, the Commission concludes that the present fares will not produce sufficient revenue to provide a reasonable and adequate margin between revenue and expenses. On the other hand the record has not justified the full amount of the sought increases. We estimate that an increase of 7.5 per cent in fares as authorized in the following order will produce these results:

Revenue	$927,391.00
Expenses	823,261.00
Operating Income	104,130.00
Income Taxes	44,716.00
Net Income After Taxes	59,414.00
Operating Ratio After Taxes	93.6%

Under the present circumstances we find the above operating results to be reasonable for this specialized type of service and that the increases in fares as authorized herein are justified.

O R D E R

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

IT IS HEREBY ORDERED that The Gray Line, Inc., is hereby authorized to publish and file, on not less than five days' notice to this Commission and to the public, amendments to its tariffs which increase each of its present sightseeing fares by 7.5 per cent, providing that where the increased fare, when added to the applicable transportation taxes, results in a total figure not ending in "0" or "5," the fares as calculated above shall be further increased such that this total figure shall be the next higher figure ending in "0" or " 5," as the case may be.

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 twenty days after the date hereof.

Dated at San Francisco, California, this 16th day of December, 1957.

Peter E. Mitchell
President

Rex Hardy

C. Lyn Fox
Commissioners