

ORIGINALDecision No. 56685

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of LONG BEACH MOTOR BUS COMPANY)
requesting authority to increase)
certain of its rates of fare.)

Application No. 39633

(For Appearances, see Decision No. 56140)

O P I N I O N

Long Beach Motor Bus Company operates an urban passenger stage service in Long Beach and the surrounding area. By this application, filed December 12, 1957, it seeks authority to increase its present single-zone cash fare to 20 cents and to establish a single-zone token fare of five tokens for 90 cents (18 cents each). No change is proposed in zone boundaries or in the additional five-cent charge for each zone travelled beyond the initial zone. Applicant proposes to increase the school fares from 40 for \$2.40 (6 cents each) for single-zone rides and 40 for \$3.00 (7½ cents each) for multizone rides to 30 for \$3.00 (10 cents each), good in all zones.

Public hearings were held before Commissioner Ray E. Untereiner and Examiner William E. Turpen at Long Beach on January 9 and March 18, 1958. At the initial hearing evidence was submitted by applicant and by the Commission's staff. At that time applicant requested an immediate interim increase of one cent, from 15 to 16 cents, in the single-zone fare. The interim increase was authorized by Decision No. 56140, dated January 21, 1958. At the March 18 hearing, direct evidence was introduced by the City of Long Beach and cross-examination of all witnesses was held. The City of Long Beach and applicant were granted permission to file written statements. The matter was submitted upon receipt of the written statements.

An exhibit introduced by an engineer of the Commission's staff contained three alternate fare structures. The first alternate provides for a single-zone cash fare of 17 cents and token fares of five for 75 cents (15 cents each). The second alternate is a single-zone cash fare of 17 cents also, but tokens at the rate of three for 50 cents (16-2/3 cents each). The third alternate includes the applicant's proposed single-zone fare of 20 cents, but a lower token rate of three for 50 cents (16-2/3 cents each). All three of the staff's alternate fare structures include school fares at 12 for \$1.00 (8-1/3 cents each), which is lower than applicant's proposal of 30 for \$3.00 (10 cents each).

As stated in the interim order, Decision No. 56140, applicant entered into a new labor contract in December of 1957 which provided for increased wages and fringe benefits retroactive to October 1, 1957.^{1/} The resultant increases in operating costs, according to applicant, is one of the main reasons for the filing of the application for increased fares.

Studies showing estimates of operating results, for the test year of April 1, 1958 to March 31, 1959, under present and proposed fares were introduced by applicant's treasurer and by a transportation engineer of the Commission's staff. Applicant's studies included the increased costs of the new labor contract in the individual expense accounts, and amounted to \$112,920. On the other hand, the engineer's

^{1/} The new contract provides for increases above the level in effect just prior to October 1, 1957, as follows:

5	cents	per	hour	effective	October 1, 1957
10	"	"	"	"	April 1, 1958
15	"	"	"	"	October 1, 1958
20	"	"	"	"	April 1, 1959

In addition, increases in operating expenses will also result from the granting of fringe benefits.

study showed his estimate of \$109,500 increased labor costs as a separate item. The estimated operating results under present and proposed fares are set forth in Table No. 1 below.

TABLE NO. 1

Estimated Operating Results Under Present and Proposed
Fares for 12 Months Ending March 31, 1959.

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
<u>Operating Revenues</u>				
Passenger	\$1,892,700	\$1,915,020	\$2,241,660	\$2,264,470
Special Bus	12,000	12,270	12,000	12,270
Advertising	21,000	21,020	21,000	21,020
Other	-	-	-	3,060
Total Operating Revenues	<u>\$1,925,700</u>	<u>\$1,948,310</u>	<u>\$2,274,660</u>	<u>\$2,300,820</u>
<u>Operating Expenses</u>				
Equipment Maintenance and Garage	\$ 344,620	\$ 340,310	\$ 344,620	\$ 340,310
Transportation	1,107,720	1,014,030	1,107,720	1,014,030
Traffic and Advertising	6,850	6,350	6,850	6,350
Insurance and Safety	167,980	147,275	167,980	147,275
Administrative and General	128,030	104,850	128,030	104,850
Operating Taxes	187,650	186,877	193,970	193,270
Depreciation	86,690	90,514	86,690	90,514
Wage Changes	-	109,500	-	109,500
Total Expenses	<u>\$2,029,540</u>	<u>\$1,999,706</u>	<u>\$2,035,860</u>	<u>\$2,006,099</u>
Net Operating Revenues	\$ (103,840)	\$ (51,396)	\$ 238,800	\$ 294,721
Other Income	1,000	-	1,000	-
Income Taxes	-	-	123,800	153,410
Net After Taxes	<u>\$ (102,840)</u>	<u>\$ (51,396)</u>	<u>\$ 116,000</u>	<u>\$ 141,311</u>
Rate Base	\$ 400,051	\$ 395,762	\$ 400,051	\$ 395,762
Rate of Return	-	-	29%	35.7%
Operating Ratio	105.33%	102.6%	94.90%	93.9%

() - Indicates loss.

It will be seen from the above table that the passenger revenue estimates of applicant and of the staff differ by a considerable amount. This difference is due entirely to different estimates of diminution of traffic to be expected before allowing any loss due to the increase in fares. Applicant estimated a loss of traffic of

5 percent, based largely on a loss of 4.93 percent in the last quarter of 1957 compared to 1956. The staff estimate for the test year reflects a loss of 3.5 percent from the 1957 level of traffic. This figure was derived from the trend of traffic over a period of several years. The record shows that the actual traffic during 1957 was 2.64 percent below that of 1956.

The chief engineer of the Bureau of Franchises and Public Utilities of the City of Long Beach introduced an exhibit showing in graph form the trend of applicant's monthly passenger traffic including transfer passengers over the past five years. According to this exhibit, since January 1957 the monthly decline has been decreasing, and the witness stated that the downtrend in passengers would cease before the test year commences. As the record does not disclose the pattern of transfer usage over the period covered by the chart, its value in showing trends is questionable. The record clearly shows that the downtrend in passengers is continuing and was greater during the latter part of 1957 and in January and February of 1958 than earlier in the year of 1957. In our opinion, the 5 percent diminution estimated by applicant appears excessive, and the 3.5 percent diminution used by the staff witness appears proper. The staff's estimates of operating revenues will be adopted as reasonable.

Although there appear to be considerable differences in the expense estimates of applicant and staff, when adjustments are made for the staff showing increased wage costs as a separate item instead of distributing the increases to the proper accounts, and for the deduction of \$6,000 from the staff's figures for Equipment Maintenance and Garage, ^{2/} the estimates are substantially the same except for

^{2/} The staff witness explained that just prior to the hearing it was learned that one supervisory job at \$6,000 per year had been eliminated, and that this account should be reduced accordingly.

public liability insurance and management fees. The record shows that applicant's recorded figures for these accounts are based on percentages of revenues, whereas the staff's estimates are based on special analyses made by the staff of the actual conditions. The staff's estimates appear to reflect actual conditions more accurately than those of the applicant and will be adopted. In view of the above, for the purposes of this proceeding, the staff's operating expense figures, adjusted to eliminate the \$6,000 previously referred to, will be adopted as reasonable.

Table No. 1 shows rate bases of \$400,051 and \$395,762, as developed by the applicant and by the staff, respectively. Applicant included provisions for a use value of 28 fully depreciated buses and an allowance for an employees' change fund. The staff showed a higher depreciated book value for equipment than applicant did. Buses that have been fully depreciated have had their full cost recovered by depreciation and are not properly included in a rate base. In a bus operation, where patrons pay at the time service is rendered, or before as in the case of school tickets or tokens, allowance of a change fund is unwarranted. The depreciated book value, as shown by the staff, is based on an extension of the values accepted in the last rate proceeding of this applicant, and is correlated with the depreciation expense in the staff's estimate of operating results. In view of the above, we find the rate base developed by the staff to be reasonable for this proceeding.

The adjusted operating results are summarized in Table No. 2, below.

TABLE NO. 2

Adjusted Estimated Operating Results for
12 Months Ending March 31, 1959

	<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Revenues	\$1,948,310	\$2,300,820
Operating Expenses	1,993,706	2,000,099
Net Before Income Taxes	\$ (45,396)	\$ 300,721
Income Taxes	-	156,645
Net After Income Taxes	\$ (45,396)	\$ 144,076
Rate Base	-	395,762
Rate of Return	-	36.40%
Operating Ratio	102.33%	93.74%

() - Indicates loss.

As mentioned previously, the staff also offered three alternate fare proposals. Its study included estimated operating results under each of these alternate fare structures. The adjusted operating results under the alternate proposals for the projected rate year are set forth in Table No. 3, below.

TABLE NO. 3

Estimated Operating Results Under Alternate Fare
Structures Suggested by the Staff

	<u>Alternate Fare Structures*</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Cash	17c	17c	20c
Tokens	5 for 75c	3 for 50c	3 for 50c
Operating Revenues	\$2,040,470	\$2,124,630	\$2,201,850
Operating Expenses	1,995,559	1,996,899	1,998,299
Net Before Income Taxes	\$ 44,911	\$ 127,731	\$ 203,551
Income Taxes	18,715	63,375	104,255
Net After Income Taxes	\$ 26,196	\$ 64,356	\$ 99,296
Rate of Return	6.62%	16.26%	25.09%
Operating Ratio	98.72%	96.97%	95.49%

* All three alternate fare structures provide for school fares at 12 for \$1.00.

The business manager of the Long Beach Unified School District appeared in opposition to applicant's proposed increase in school fares. In substance, he felt that the percentage increase in the school fares was entirely too high in comparison with the increase in adult fares. He also objected to the request of applicant to limit school fares to those students not above the 12th grade. In this connection he urged that, if a limit is to be authorized, the use of school fares be permitted through the 14th grade (junior college). A representative of a parochial high school also opposed the increase in school fares. The record shows that originally the school fare was half of the adult fare, but for a period of several years this relationship has not existed due to increases in the adult fare without a corresponding change being made in the school fare. In seeking a 10-cent school fare at this time, applicant states that it is trying to restore the former relationship.

The chief engineer of the Bureau of Franchises and Public Utilities of the City of Long Beach urged that in determining whether an increase in fares should be authorized consideration should be given only to the rate of return and not to the operating ratio. This matter was discussed in detail in the decision in the last fare proceeding of this applicant.^{3/} At that time we pointed out that we take into consideration all pertinent factors, such as rate of return, amount of net revenue, financial requirements, and operating ratio. In that proceeding the operating ratio was given more weight than the rate of return as the company's rate base was less than one-quarter of the original cost of the properties. We said then that 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

^{3/} Decision No. 52353, dated December 12, 1955, in Application No. 37178.

give appropriate weight to operating ratio in our determination of reasonable rates. In the instant proceeding, applicant's rate base is even smaller in relation to original cost than in the last proceeding.

Examination of Table No. 2 discloses that under the present fares applicant will not be able to earn enough revenue to meet its expenses. Under applicant's proposed basic single-zone fare of 20 cents, tokens at five for 90 cents (18 cents each), and school fare of 10 cents, Table No. 2 shows that the company would have a net income after taxes of \$144,076 for an operating ratio of 93.74 percent. Under the circumstances, it appears that this is higher than should be authorized. The third alternate fare structure proposed by the staff provides for the same cash fare but provides for a lower token rate of 3 for 50 cents (16-2/3 cents each) and for a lower school fare of 12 for \$1.00 (8-1/3 cents each). Table No. 3 shows that under this fare structure applicant will have a net income after taxes of \$99,296 and an operating ratio of 95.49 percent. It is concluded, therefore, and the Commission so finds as a fact, that fare increases to the levels set forth in the staff's third alternate fare structure are justified, and the anticipated operating results under such fares we find to be reasonable. In regard to applicant's request to limit school fares to students not above the 12th grade, it appears that the limit should be the 14th grade as suggested by the witness from the school district.

There remain for discussion several matters pertaining to service. The witness for the City of Long Beach urged that the service on the Carson Street line (Route No. 13-A) be doubled. The evidence of record does not show that applicant should be required at this time to make any change in the frequency of service on this line. The other matter involves the problem of passengers living

in East Zone 2 now having to pay a three-zone fare to reach the Lakewood shopping center located in North Zone 2. Applicant agreed that it would work out a transfer arrangement to provide a two-zone fare for such passengers. Applicant will be expected to publish in its tariff an acceptable provision providing such arrangements.

A number of patrons of the Long Beach Motor Bus Company attended the hearing and testified in opposition to the proposed fare increase. Their testimony has not been discussed but has been given consideration. Several matters regarding revenues, expenses and rate base also have not been discussed, but have been considered in reaching our conclusions.

O R D E R

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

IT IS ORDERED:

(1) That Long Beach Motor Bus Company be and it is hereby authorized to publish and file, on not less than five days' notice to the Commission and to the public, increased fares as follows:

Adult Fare, per one-way ride:

Single zone - 20 cents cash, or one token
Two zones - 25 cents cash, or one token plus
5 cents
Three zones - 30 cents cash, or one token plus
10 cents

Tokens to be sold at the rate of 3 for 50 cents

School Fare, good in and between all zones, at the rate of 12 rides (tickets or tokens) for \$1.00.

(2) That applicant be and it is hereby authorized to establish a rule in connection with the above fares restricting the use of school fares to students attending public, parochial or private schools in a grade no higher than the 14th grade.

(3) 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.

(4) That applicant shall, concurrently with the establishment of the increased fares herein authorized, provide in its tariff a transfer arrangement satisfactory to the Commission so as to permit travel between East Zone 2 and Lakewood Center on payment of a two-zone fare.

(5) That the authority granted in paragraph (1) above shall expire unless exercised within sixty days after the effective date of this order.

(6) That, in all other respects, Application No. 39633 be and it is hereby denied.

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

Dated at San Francisco, California, this 13th day of May, 1958.

[Signature]
 President

[Signature]

[Signature]

[Signature]
 Commissioners

Commissioner C. Lynn Fox, being necessarily absent, did not participate in the disposition of this proceeding.