

ORIGINALDecision No. 57289

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 KEY SYSTEM TRANSIT LINES, a corpora-)
 tion, for an order pursuant to)
 Section 454 of the Public Utilities)
 Code authorizing the establishment)
 of increases and adjustments in)
 rates and fares for transportation)
 of passengers in the Counties of)
 Alameda and Contra Costa, State of)
 California.)

Application No. 40185

Donahue, Richards & Gallagher, by George E. Thomas,
 for applicant.

Mrs. Kathie Zahn, for City of Albany; Elizabeth
 Albrecht, in propria persona; Victor P. Medaglia,
 in propria persona and for Spirit of Freedom
 Monument; and Frank P. Tauro, in propria persona;
 protestants.

John W. Collier, for City of Oakland; Fred C.
 Hutchinson and Robert T. Anderson, for City of
 Berkeley; Sherrill D. Luke, for City of Richmond;
Arthur M. Carden, for City of San Leandro;
Robert E. Nisbet, for Alameda-Contra Costa Transit
 District; J. Howard Arnold, director, Alameda-
 Contra Costa Transit District, in propria persona;
 and John Ferguson, in propria persona; interested
 parties.

Cyril M. Saroyan, for the Commission's staff.

O P I N I O N

Key System Transit Lines is engaged in the transportation of passengers by motor coach between and in various communities of the East Bay area in the Counties of Alameda and Contra Costa and between said counties, on the one hand, and the City and County of San Francisco, on the other. By this application Key System seeks authority to increase certain of its fares applicable within the East Bay area. This action, assertedly, is necessary in order to meet increased expenses resulting from wage increases provided for

in a new labor contract which became effective June 7, 1958. No increases are sought in fares presently applicable between the East Bay area and the City and County of San Francisco.

Public hearing of the application was held before Commissioner Theodore H. Jenner and Examiner Carter R. Bishop in Oakland on July 17 and 28, 1958.

Evidence was adduced by two witnesses for applicant, by two transportation engineers of the Commission's staff, and by several persons appearing for public bodies or as individuals.

Applicant proposes to increase the present adult cash fares as follows: single-zone, from 20 cents to 25 cents; two-zone, from 30 cents to 35 cents; and three-zone, from the present fare of 35 cents to a proposed fare of 40 cents. At the same time applicant would re-establish the use of tokens,¹ to be sold at the rate of five for one dollar. Within a single zone one token would be accepted in lieu of 20 cents cash. For two-zone and three-zone rides the token fares would be one token plus 10 cents, and one token plus 15 cents, respectively. Thus, under applicant's proposals the token user would experience no increase in fares.

Applicant also seeks authority to cancel its present multiple ride school fare of 12 rides for \$1.00 (8-1/3 cents per ride), allowing the present school single ride fare of 10 cents to remain unchanged.

¹ Prior to September 1, 1957, applicant's fare structure included adult token fares. Effective that date under authority of Decision No. 55297 in Application No. 39156 the present straight cash fare basis was established.

According to the record, applicant's local East Bay operations produced, during the 12-month period ending May 31, 1958, revenues of \$7,051,393. For the same period, operating expenses totaled \$6,935,874, leaving a net income of \$54,815 after income taxes, and reflecting an operating ratio of 99.22 percent. The over-all system figures, including transbay operations, for the above-mentioned period, were: revenues, \$11,268,097; expenses, \$10,864,938; net revenue after income taxes, \$191,276; and operating ratio, 98.30 percent.

Applicant estimates that the new wage agreement will result in increased operating expenses for the East Bay services, for the 12-month period ending May 31, 1959, totaling \$255,892. The wage agreement also covers applicant's transbay operations, and the total anticipated expense increase for the system as a whole, for the above-mentioned period, is \$352,384.²

Estimated results of operation under the proposed fares were introduced by applicant's and the staff's witnesses. Additionally, the staff study included estimated operating results under a continuation of present fares. The rate year utilized by applicant in its study was the 12-month period ending May 31, 1959, while that of the staff was the 12-month period ending

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The wage agreement, which expires May 31, 1960, calls for further increases in wage rates and other benefits, effective June 1, 1959. According to the record, applicant does not predicate the instant application, in any respect, on the 1959 wage increases.

August 31, 1959. The estimates for East Bay operations, for which fare increases are herein sought, are summarized in Table I, below:

TABLE I

Estimated Results of Operation under Present and Proposed Fares for the 12-Month Periods Ending May 31, 1959 (Applicant) and August 31, 1959 (Staff)
(East Bay Local Service)

	Applicant	Staff	
	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues	\$6,600,546	\$6,671,000	\$7,011,300
Operating Expenses			
Operation and Maintenance	\$5,511,100	\$5,481,750	\$5,481,750
Operating Taxes and Rents	598,700	623,430	623,430
Depreciation	277,566	241,100	241,100
Amortization of Track Removal, etc.	172,658	85,600	85,600
Wage Increase	255,892	309,750	309,750
Total Operating Expenses	\$6,815,916	\$6,741,630	\$6,741,630
Net Before Income Taxes	\$ (215,370)	\$ (70,630)	\$ 269,670
Income Taxes	\$ (116,128)	\$ (40,830)	\$ 142,660
Net After Income Taxes	\$ (99,242)	\$ (29,800)	\$ 127,010
Operating Ratio	101.5%	100.4%	98.2%
Rate Base	-	\$1,712,500	\$1,712,500
Rate of Return	-	-	7.4%

○ - Indicates red figure.

Estimates of over-all system operating results were also developed by the witnesses. The staff study included forecasts for the selected rate year under both present and proposed fares. Applicant's study projected system operating results only under the

proposed fares. The estimates of the respective witnesses are summarized below in Table II.

TABLE II

Estimated Results of Operation under Present and Proposed Fares for the 12-Month Periods Ending May 31, 1959 (Applicant) and August 31, 1959 (Staff) (System Operations)

	<u>Applicant</u> <u>Proposed</u> <u>Fares</u>	<u>Present</u> <u>Fares</u>	<u>Staff</u> <u>Proposed</u> <u>Fares</u>
Operating Revenues	\$10,363,342	\$10,711,520	\$11,058,320
Operating Expenses	\$10,227,175	\$10,193,900	\$10,193,900
Net Before Income Taxes	\$ 136,167	\$ 517,620	\$ 864,420
Income Taxes	\$ 67,921	\$ 273,600	\$ 460,600
Net After Income Taxes	\$ 68,246	\$ 244,020	\$ 403,820
Operating Ratio	99.34%	97.7%	96.3%
Rate Base	-	\$ 3,289,900	\$ 3,289,900
Rate of Return	-	7.4%	12.3%

It does not appear necessary to discuss in detail the differences in the various items of revenue and of expense as developed by applicant and the staff in their respective estimates of operating results. It should be pointed out, however, that applicant's figures for its selected rate year (June 1, 1958-May 31, 1959) include neither revenues nor expenses for the first week of June 1958. During that period a strike was in progress and no bus service was rendered. Moreover, applicant's estimates under the proposed fares give effect to the increased revenues anticipated therefrom for ten months only, that is, for the period from August 1, 1958 to May 31, 1959, inclusive. The staff, on the other hand, included in its estimate additional revenue from the proposed fares for a full 12-month period.

The evidence of protestants may be summarized generally as follows: increased fares will further divert patronage from applicant's vehicles to private carriage; retired persons with small, fixed incomes cannot afford an increase in fares; granting of the application is not warranted, in view of certain alleged inadequacies in the service. A director of the Alameda-Contra Costa Transit District, speaking on his own behalf, requested that no increase in fares be authorized for the next few months on the ground that the Transit District expects to take over the operations of applicant at some future date.

The representative for the City of Albany, a protestant, offered in evidence a copy of Volume 1, Number 3, of "Transit Times", dated July 1958.³ Counsel for applicant objected to its receipt on the ground that the document constituted hearsay. The presiding commissioner took under submission the matter of ruling on the objection. The document in question is hereby received in evidence as Exhibit No. 7.

Conclusions

As previously stated, applicant, in developing its estimate of operating results under the proposed fares, excluded from its 12-month test period all revenues and expenses for a period of one week and included additional revenue, anticipated from the increased fares, for only 10 months. These circumstances are due to the facts that the test period selected by applicant began with June 1, 1958,

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"Transit Times" is a periodical published monthly by the Alameda-Contra Costa Transit District. The issue in question contains a news story of a preliminary report of a consulting engineer for the Transit District, relative to the establishment of a public transit system in the East Bay area.

which includes the strike period hereinbefore mentioned, and that applicant assumed an effective date of August 1, 1958, for the increased fares. Obviously, the estimated results developed by applicant do not give a fair picture of the results which might be reasonably expected in a normal 12-month period, during which there would be no work stoppages and which would reflect for the full period the additional revenues to be derived by reason of the increased fares. Moreover, applicant's study fails to include rate base estimates, together with estimated rates of return, either for the East Bay operations or for the system. It follows from the foregoing considerations that, for rate-making purposes, reliance may not be safely placed upon applicant's forecast of operating results under the proposed fares.

The staff study shows estimated operating results for the 12-month period beginning September 1, 1958. The study assumes that operations will be conducted without interruption during the period selected and that the sought increased fares will be in effect for the entire fiscal year. As shown in the foregoing tables, the staff estimates that under a continuation of present fares applicant's local East Bay operations will result in a loss, for the rate year, of \$29,800, reflecting an operating ratio of 100.4 percent. The over-all system operating results under a continuation of present East Bay fares, as estimated by the staff, show net revenue of \$244,020 after income taxes, an operating ratio of 97.7 percent and rate of return of 7.4 percent. Under proposed fares the staff estimates that local East Bay operations will show a net profit, for the rate year, of \$127,010 after taxes, an operating ratio of 98.2 percent and rate of return of 7.4 percent. The corresponding system figures are: net revenue of \$403,820 after taxes, operating ratio of 96.3 percent and rate of return of 12.3 percent.

As the Commission has pointed out many times in prior rate proceedings, operating ratios, rate bases, rates of return and other pertinent data are valuable indices of earning requirements. The Commission has further said that in reaching its conclusions in such matters it considers all available data without limitation or restriction to any single method or formula. The prime requirement is that the final result shall be reasonable. The record herein indicates that increased operating expenses resulting from the new wage agreement will, on an annual basis, total \$416,540 for applicant's system, while additional revenues under the sought increased fares, as estimated by the staff, will amount annually to \$346,800.⁴ Thus, the estimated increased revenues will not offset the anticipated advance in operating expenses.

For the reasons stated above, after careful consideration of all the evidence of record we find as a fact that applicant's local East Bay operations will be conducted at a loss if the present fare structure applicable thereto remains unchanged and that the estimated operating results under the proposed fares, as reflected in the staff's figures, supra, are reasonable. We further find that the proposed increased fares are justified. The application will be granted.

It is pertinent to emphasize here that, by purchasing tokens, riders who now pay adult cash fares will, under the new structure, avoid any increase in fares over applicant's lines.

Effective April 20, 1958, applicant's remaining transbay rail lines were, under authorization from the Commission, converted to motor coach operation. The record indicates that the improved system operating results, as estimated by the staff for the rate

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The estimate of additional revenue under the proposed fares includes \$6,500 which would accrue in connection with local East Bay fares collected on transbay coaches.

year, are predicated on the favorable results experienced by applicant in its transbay service since conversion of the rail lines to motor coaches. Admittedly, the transbay operating results since conversion, on the basis of which the staff projected its estimate for the full rate year, covered only a short period. The Commission feels that it should, after a reasonable period, again review the results of operation of applicant, both as to the East Bay services and the transbay operations, as well as the operating results of the system as a unit. Accordingly, applicant will be directed in the following order to file with the Commission statements of actual operating results for the 12-month period beginning with the effective date of the increased fares hereinafter authorized. Said statements shall (1) show operating results separately for applicant's East Bay local operations, for its transbay service and for the system as a whole; (2) show revenues, expenses, operating ratios, rate bases, and rates of return; (3) be filed with the Commission not later than thirty days after the termination of said 12-month period.

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 Key System Transit Lines be and it is 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.

(2) 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 be posted for a period of not less than thirty days.

Revised

(3) That Key System Transit Lines shall, not later than thirty days after the termination of the 12-month period hereinafter designated, file with the Commission statements setting forth the results of operation of applicant, including revenues, expenses, operating ratios, rate bases and rates of return; said statements shall be for the 12-month period beginning with the effective date of the increased fares herein authorized and shall show said operating results separately for applicant's East Bay operations, for its transbay service and for its system as a whole.

(4) That the authority herein granted shall expire unless exercised within sixty days after the effective date hereof.

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

Dated at San Francisco, California, this 2nd day of September, 1958.

E. L. Fox
 President

W. H. ...

Therese ...

Commissioners

Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.