

ORIGINAL

Decision No. 57393

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application of PETE DRAKE conducting as sole owner certain automobile passenger stage lines under the name of TERMINAL ISLAND TRANSIT CO., to increase rates and fares for the transportation of passengers between Long Beach, California and Terminal Island.

Application No. 40193

William C. Price, for applicant.  
Walfred Jacobson, by Leslie E. Still, for the City of Long Beach, interested party.  
Henry E. Jordan, for the Bureau of Franchises and Public Utilities, City of Long Beach, interested party.  
Glenn E. Newton, for the staff of the Public Utilities Commission of the State of California.

O P I N I O N

Pete Drake, doing business as Terminal Island Transit Co., is engaged in the transportation of persons as a passenger stage corporation in the Long Beach - Los Angeles harbor area. By this application he seeks to establish increased fares on less than statutory notice.

Applicant's present fares, and the fares which he seeks to establish, are as follows:

	<u>Fare per One-Way Ride</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Adult, or child 12 years old or older</u>		
Cash	15 cents	20 cents
Token	-	16 2/3 cents (3 tokens, 50 cents)
<u>Child</u>		
5 years or older, but less than 12 years	10 cents cash	10 cents cash
Less than 5 years old	Free	Free

Applicant alleges that since April, 1957, when his fares were established at their present level, he has experienced such increases in operating costs that his operations are being conducted at a loss, and that further and greater losses will be experienced in the future if increases in his fares are not permitted.

On July 31, 1958, following notice to persons and organizations believed to be interested, public hearing on the application was held before Examiner C. S. Abernathy at Long Beach. Evidence was presented by applicant and by an engineer of the Commission's staff. The City of Long Beach was represented at the hearing by its deputy city attorney and by the chief engineer of its Bureau of Franchises and Public Utilities.

The record in this matter shows that since the first of this year applicant has been subjected or has become committed to increases totaling 25 cents an hour in his wage rates for drivers, said increases to be made in accordance with the following schedule: 5 cents an hour on January 19, 1958; 5 cents an hour on July 20, 1958; 7½ cents an hour on January 18, 1959, and 7½ cents

an hour on July 19, 1959. Percentagewise, these increases represent a total increase of about 14 percent of the wage rate being paid by applicant to his drivers at the close of 1957. In addition to these increases applicant has granted wage increases of about 10 percent to employees in other classifications. Also, he has had to meet increases in costs for tires, fuel and insurance.

Figures were submitted by applicant to show estimates of results of operations for the year through April, 1959, if present fares are continued in effect and if fares as sought are established. In the development of his estimates applicant assumed that the volume of his traffic would continue at approximately the same level as that which applied the previous year. Allowances were included for the cost increases indicated. The allowances which applicant included to cover the increases in labor costs represent an average increase of about 12 percent.<sup>1</sup> In addition to said allowances applicant also included provision for an increase of \$2,000 a year in his own compensation as manager of the operations, which compensation is now \$10,000 a year.

Estimates of applicant's operating results for the future under present and under proposed fares were submitted also by the Commission engineer. His estimates cover the year ending

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<sup>1</sup> Although applicant's estimates purport to apply for the year through April 30, 1959, the evidence is clear that the estimates are weighted to reflect the increase of 7½ cents per hour in drivers' wages which is scheduled to become effective July 19, 1959. The record does not show, however, the extent that the estimates were so weighted.

with July, 1959. Aside from the differences in period on which his estimates were based, the engineer's estimates differ from those of applicant in several important respects. Whereas applicant had assumed a continuation of his present level of traffic, the engineer predicted a decrease of about 8 percent below the traffic volume for the 12 months through May, 1958. With respect to the increases in labor costs, the engineer included but little allowance for the increases to become effective July 19, 1959, inasmuch as said increases would apply for less than two weeks of the period covered by his estimates. In the matter of insurance, the engineer included no provision for an increase in costs, notwithstanding the fact that applicant's insurance premiums are computed on the basis of gross revenues and would increase with an increase in revenues resulting from establishment of higher fares. The engineer said that with fewer passengers expected during the coming year, applicant's exposure to loss would be less, and for this reason there should be no increase in insurance costs. No provision was made by the engineer for any increase in tire costs. His estimate was computed on what he said was the normal contract price paid for tires by other bus companies. Neither did the engineer include in his estimates any provision for an increase in applicant's own compensation, for he said that in his opinion, based on his experience in dealing with other bus companies, applicant's present charges to administrative expense are sufficient to provide the operations with necessary management services. One other major difference between the engineer's estimates and those of applicant is attributable to the fact that the engineer excluded from his figures certain non-carrier expenses which applicant had listed with the costs of his bus operations.

Applicant's estimates of operating results under present and proposed fares, and those which were submitted by the Commission engineer, are summarized in Tables Nos. 1 and 2 below:

Table No. 1

<u>Estimated Results of Operations Under Present Fares</u>		
	(a) <u>Applicant</u>	<u>Commission Engineer</u> (b)
Revenues	\$ 215,407	\$ 193,810
Expenses	<u>232,501</u>	<u>199,980</u>
Net Operating Revenues	<u>(\$ 17,094)</u>	<u>(\$ 6,170)</u>
Income Taxes	-	-
Net Income	<u>(\$ 17,094)</u>	<u>(\$ 6,170)</u>
Rate Base	\$ 81,666	\$ 96,180
Operating Ratio Rate of Return	107.9%	103.2%

( ) Indicates loss  
 (a) For year through April, 1959.  
 (b) For year through July, 1959.

Table No. 2

<u>Estimated Results of Operations Under Proposed Fares</u>		
	(a) <u>Applicant</u>	<u>Commission Engineer</u> (b)
Revenues	\$ 244,729	\$ 218,760
Expenses	<u>234,691</u>	<u>200,490</u>
Net Operating Revenues	\$ 10,057	\$ 18,270
Income Taxes	<u>2,200</u>	<u>5,510</u>
Net Income	\$ 7,857	\$ 12,760
Rate Base	\$ 81,666	\$ 96,180
Operating Ratio Rate of Return	96.76% 9.6%	94.2% 13.3%

(a) For year through April, 1959.  
 (b) For year through July, 1959.

The Commission engineer also submitted two other estimates which he had developed to show operating results under alternative fare bases. In one estimate he assumed the establishment of a 17-cent cash fare in lieu of the present 15-cent cash fare. According to his figures, such a fare would produce an operating ratio and a rate of return of 95.8 and 9.2 percent, respectively. In the other estimate he assumed the establishment of a 17-cent cash fare and a 16 2/3-cent token fare (3 tokens, 50 cents). For operations under these fares the engineer's figures show an operating ratio of 96.2 percent and a rate of return of 8.3 percent.

The representatives of the City of Long Beach developed through their participation in the proceeding that at the present time applicant does not provide reduced fares for school children who may use his lines in going to and from school. Applicant stipulated that if the increased fares which he seeks are authorized he would establish school fares corresponding to those of Long Beach Motor Bus Company, which operates throughout Long Beach and into adjacent areas. He said that in the event the fare increases which are authorized are less than those sought, he would establish a fare of 10 cents for students in a grade not higher than the 14th grade.<sup>2</sup>

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The Long Beach Motor Bus Company maintains a ticket fare of 8 1/3 cents per ride (12 tickets, \$1.00) for the transportation of students in the 14th grade or lower. Its base fares for the transportation of adults are the same as those which applicant seeks, namely, 20 cents cash or a token fare of 16 2/3 cents, based on the sale of tokens at the rate of 3 for 50 cents.

Discussion, Findings and Conclusions

It is evident from the record herein that under present fares applicant is incurring losses which, if continued unchecked, will seriously impair his ability to render the services that he provides for the public. The annual rate of loss which is represented in applicant's estimate for the year through April, 1959, is more than 35 percent of his net worth as of April 30, 1958. The loss which was estimated by the Commission engineer is about 10 percent of applicant's net worth as of April 30, 1958. Even under the lower figures of the engineer the rate of loss is substantial.

Generally speaking, it appears that of the two estimates, those of the engineer provide the better measurement of applicant's revenues and expenses for the future, particularly since excluded therefrom are data pertaining to certain non-carrier operations which applicant also performs. Subject to certain modifications, they will be adopted as basis for our findings hereinafter.

The modifications relate to the engineer's expense estimates for wages, tires and tubes. With reference to the wage estimates, it appears somewhat greater provision should be made for the impact upon applicant's operating costs of the wage increases which are scheduled to become effective July 19, 1959. The engineer's estimates were developed for a year's period in accordance with customary procedures. However, in this instance a year's operations from the date that any increased fares may be made effective would include several months' operations under the

increased wage rate of July 19, 1959. Consequently, it appears that a greater allowance for the increased wages than included in the more limited estimate of the engineer should be made and would be proper.

The engineer's estimate of applicant's tire costs for the coming year also appears somewhat low. The evidence shows that applicant's tire costs have been increased as a consequence of an order of the Commission (Decision No. 55633, dated October 1, 1957) prohibiting the use of recapped tires on the front wheels of buses of passenger stage corporations. Applicant estimated that the increase in tire costs would approximate \$1,500 for the year ending with April, 1959. The engineer's estimate was based on experience of other bus companies operating under tire contracts. However, it does not appear that the same contractual arrangements are available to applicant or that, in fact, said contractual arrangements are those which apply under present regulatory requirements. In the circumstances it appears that applicant's figure of \$1,500 should be accepted as a reasonable estimate of his increase in tire costs during the coming year.

Effect being given to the foregoing modifications of the engineer's figures, it appears that the net earnings



which would result under the sought fares during the coming year would amount to about \$11,300. The equivalent operating ratio would be about 94.8 percent and the rate of return would be about 11.7 percent on a rate base wherein the principal operating properties are approximately 65 percent fully depreciated. On the showing here presented, said operating ratio and return are hereby found reasonable. The increase in rates which applicant seeks is hereby found justified. The sought rates will be authorized.

In view of the applicant's need for additional revenues to avoid further losses, applicant will be authorized to establish the increased fares on five days' notice to the Commission and to the public. In accordance with the stipulation concerning school fares, the exercise of the rate-increase authority hereinafter granted will be conditioned upon the establishment of school fares at the rate of 12 rides for \$1.00.

O R D E R

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

IT IS HEREBY ORDERED that

1. Pete Drake, doing business as Terminal Island Transit Co., be and he is authorized to amend his Local Passenger Tariff Cal. P.U.C. No. 6, on not less than five days' notice to the Commission and to the public, to establish increased fares as follows:

	<u>Fare per One-Way Ride</u>
Adult, or child 12 years old or older	
Cash .....	20 cents
Token .....	16 2/3 cents (Tokens to be sold at the rate of 3 for 50 cents.)

2. The exercise of the fare-increase authority herein granted be and it is made subject to the condition that concurrently with the establishment of the increased fares specified in paragraph 1 above, Pete Drake shall concurrently establish a student fare of 8 1/3 cents per one-way ride (based upon the sale of tickets or tokens at the rate of 12 for \$1.00), subject to the following provisions:

Limits and Conditions Applicable to School Fares

School tickets or tokens will be sold at fare published only upon presentation of order properly filled out and signed by the principal of the school attended. Such tickets or tokens will be issued only during the months schools are in session, and will be honored for passage of individual attending public, parochial or private schools in a grade no higher than the 14th grade between the hours of 7:00 a.m. and 4:30 p.m. on school days only, with the exception that the 4:30 p.m. hour will be extended to 6:00 p.m. for those Senior High School students participating in extra curricular activities. These students are to provide identification certificates furnished by the Board of Education entitling them to use the tickets or tokens after 4:30 p.m. School tickets or tokens will not be honored on Saturdays, Sundays or holidays.

3. In addition to the required filing of tariffs, Pete Drake shall give notice of the fare changes to the public by posting in his buses and terminals a printed explanation of the fare changes herein authorized. Such notices shall be posted not later than five days before the effective date of the fare changes and shall remain posted until not less than ten days after said effective date.

4. The authority herein granted shall expire unless exercised within ninety 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 29<sup>th</sup> day of SEPTEMBER 1958.

[Signature]  
President

[Signature]

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Commissioners: