

ORIGINAL

Decision No. 57478

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Star & Crescent Ferry Company
for an increase in passenger
fares.

Application No. 40131

John C. McHose, for applicant.
Joseph C. Zauri, for North Island Association
and other organizations; and Leigh H. Slocum,
for American Legion Post No. 755; protestants.
Commander W. Windus, for Commanding Officer,
U. S. Naval Air Station, North Island;
interested party.
Glenn E. Newton, for the Commission's staff.

O P I N I O N

Star & Crescent Ferry Company, a corporation, operates a common carrier passenger service across San Diego Bay, between the City of San Diego and North Island.¹ Its present fare is ten cents cash or one token, the latter being sold at the rate of four tokens for 30 cents (7½ cents each). By this application the carrier seeks authority to cancel its token fares, allowing the cash fare of ten cents per ride to remain unchanged.

Public hearing of the application was held before Examiner Carter R. Bishop in San Diego on July 21 and 22, 1958. Evidence was adduced by two of applicant's vice presidents and by an associate transportation engineer of the Commission's staff.

Applicant's fares were last adjusted effective March 9, 1958, pursuant to Decision No. 56292 in Application No. 39202.² At

¹ Detailed accounts of applicant's operations, intercompany relationships and history are set forth in Decision No. 51880, in Application No. 36840 (54 CPUC 381), and in Decision No. 56292, in Applications Nos. 39202 and 39462.

² Application No. 39202, the record shows, was filed on July 1, 1957; hearing was held on November 12 and 13, 1957, and Decision No. 56292 was issued on February 25, 1958.

that time the token basis of fares was increased from the rate of four tokens for 25 cents (6½ cents each) to four tokens for 30 cents. No change was made in the cash fare of ten cents. According to the instant application, the increased fares authorized by Decision No. 56292 have already proven to be insufficient to maintain applicant in a sound financial condition. Hence, the application states, it has been necessary to seek, in this proceeding, additional fare increases.

The record discloses that almost all of the passengers carried on applicant's ferries are, and have been, personnel employed at the United States Naval Air Station on North Island, or crew members of naval vessels which, from time to time, dock at North Island. The volume of passenger traffic has varied directly with increases and decreases in Naval activity. Thus, there was a large increase in passengers carried during World War II, a sharp decline thereafter, a lesser increase during the Korean hostilities, and a subsequent gradual decline. This falling off of traffic, it appears, has been accentuated by a program of reduction in Naval Marine expenditures. The record discloses, in this connection, that the volume of passenger traffic handled by applicant since the time of the hearing in its 1957 increase proceeding has been substantially less than that forecast both by applicant and by the Commission's staff at that hearing. Moreover, in January of this year applicant's operating expenses were augmented by reason of a wage increase of approximately 5 percent, which was the result of a new contract with its union employees.

Applicant's book records show, for the 12-month period ending April 30, 1958, operating revenues of \$245,873 and expenses totaling \$307,139, reflecting an operating deficit of \$61,266 and an operating ratio of 124.9 percent. These results, however, give

little effect to the fare increase authorized by Decision No. 56292, which increase went into effect on March 9, 1958.

Estimated results of operations under present and proposed fares were introduced at the hearing by applicant's vice president-treasurer and by the staff engineer. The 12-month periods selected by the two witnesses for their forecasts were the periods ending April 30, 1959, and June 30, 1959, respectively. The estimated results of operation are set forth in Table I below.

TABLE I

Estimated Results of Operation Under Present and Proposed Fares for the 12-Month Periods Ending April 30, 1959 (Applicant) and June 30, 1959 (Staff)

| | Applicant | | Staff | |
|---------------------------|---------------|----------------|---------------|----------------|
| | Present Fares | Proposed Fares | Present Fares | Proposed Fares |
| <u>Revenues</u> | | | | |
| Passenger | \$265,388 | \$339,600 | \$266,290 | \$340,760 |
| Other | 1,005 | 1,005 | 1,310 | 1,310 |
| Total Revenues | \$266,393 | \$340,605 | \$267,600 | \$342,070 |
| <u>Expenses</u> | | | | |
| Maintenance | \$ 33,544 | \$ 33,544 | \$ 42,000 | \$ 42,000 |
| Transportation | 175,114 | 175,114 | 168,250 | 168,250 |
| Insurance | 25,043 | 25,043 | 21,930 | 21,930 |
| Administration | 45,456 | 45,456 | 28,820 | 28,820 |
| Operating Rents and Taxes | 19,232 | 19,232 | 16,810 | 16,810 |
| Depreciation | 11,632 | 11,632 | 12,850 | 12,850 |
| Total Expenses | \$310,021 | \$310,021 | \$290,660 | \$290,660 |
| Net Before Income Taxes | \$ (43,628) | \$ 30,584 | \$ (23,060) | \$ 51,410 |
| Income Taxes | - | \$ 10,991 | \$ 25 | \$ 22,220 |
| Net After Income Taxes | \$ (43,628) | \$ 19,593 | \$ (23,085) | \$ 29,190 |
| Operating Ratio | 116.4% | 94.3% | 108.6% | 91.5% |
| Rate Base | \$165,364 | \$165,364 | \$145,550 | \$145,550 |
| Rate of Return | - | 11.9% | - | 20.1% |

 - Indicates Loss.

The revenue estimates of applicant and the staff, respectively, both under present and proposed fares, are very close and do not require detailed discussion herein. While the expense estimates of the two witnesses do not, in the aggregate, widely differ, there are marked differences with respect to certain individual items of expense. These will be considered in turn. Some differences in revenue and expense estimates are to be expected, in view of the different periods selected by applicant and the staff, respectively, for their forecasts.

Applicant in its study included \$21,000 for salaries of general officers.³ The staff, on the other hand, allowed \$12,000 for this item of expense. In Decision No. 51880, supra, the Commission found \$15,000 to be reasonable compensation for the services involved. It appears from the record that there has been no appreciable change in the quantity or character of the services rendered by applicant's general officers since the time when Decision No. 51880 was issued. It appears that \$15,000 is a reasonable charge to operating expenses for rate-making purposes.

For salaries of supervisors and clerical help at applicant's terminal applicant provided a total of \$17,778, while the staff witness assigned to this item less than half that amount, namely, \$8,750. The record indicates that the latter amount is inadequate for proper discharge of the necessary functions involved in this portion of applicant's operations. It appears that an allowance of \$12,000 for the salaries in question will be reasonable for the purposes of this proceeding.

Applicant included in its study rental paid for its uptown office space, in the amount of \$2,532. The staff, in its estimate

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The record shows that applicant's general officers are officers also of other companies which are affiliated with applicant. A portion of the total salary received by each officer is allocated to applicant's operating expense in accordance with the amount of time which he devotes to applicant's business.

of operating expenses for the rate year, made no provision for this item. The engineer was of the opinion that the functions discharged by applicant in its uptown office could just as well be performed at its dock terminal. The evidence is clear from the testimony of witnesses for applicant that the space in the terminal is neither sufficient nor appropriate for the activities now carried on at the uptown office. The amount allowed by applicant for rental of the latter facility will be accepted.

For legal expense the staff included \$900, as contrasted with the amount of \$3,780 allowed by applicant for this item. The staff estimate, the engineer explained, is based on analysis of the experience of many other passenger transportation companies, and reflects an amount per year averaged over an extended period of time. Applicant's estimate of \$3,780 includes its annual expenditure of \$1,500 for legal advice and advice on tax matters, plus an amount of \$2,280 which is the annual charge arising from the amortization, over a period of five years, of the legal expense incurred in connection with the last two rate increase proceedings. Applicant's estimate makes no provision for legal expense incurred in connection with the instant proceeding, which expense, according to the record, would be in the neighborhood of \$1,000. Applicant's estimate of legal expense for the rate year does not appear to be unreasonably high and will be adopted herein.

As will be seen from Table I, supra, the estimated rate bases developed by applicant and the staff are \$165,354 and \$145,500, respectively. The large difference between these two estimates arises principally from the fact that applicant's figure includes \$30,000 for working capital, whereas the staff estimate make no provision for that element. The staff rate base estimate does include \$4,100 for "deposits". In applicant's estimate the latter item appears to

be included in the working capital. In previous proceedings involving the fares of applicant herein the Commission has disallowed any provision for working capital in the carrier's rate base. This position was taken in view of the fact that applicant receives its revenues, day by day, in advance of the services performed, thus eliminating the necessity for separate provision for working capital. The evidence of record does not warrant any different conclusion in the instant proceeding. It appears that the estimated rate base developed by the staff will be reasonable for the purposes of this proceeding.

Estimated operating results under present and proposed fares, as adjusted to give effect to the modifications in the estimates of operating expenses and of rate base hereinbefore found reasonable, are summarized in Table II below.

TABLE II
Estimated Operating Results, As Adjusted

| | <u>Applicant</u> | | <u>Staff</u> | |
|-------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | <u>Present Fares</u> | <u>Proposed Fares</u> | <u>Present Fares</u> | <u>Proposed Fares</u> |
| Operating Revenues | \$266,393 | \$340,605 | \$267,600 | \$342,070 |
| Operating Expenses | 298,243 | 298,243 | 302,322 | 302,322 |
| Net Before Income Taxes | (31,850) | 42,362 | (34,722) | 39,748 |
| Income Taxes | - | 17,342 | 25 | 15,932 |
| Net After Income Taxes | (31,850) | 25,020 | (34,747) | 23,816 |
| Operating Ratio | 119.6% | 92.7% | 113.0% | 93.0% |
| Rate Base | 145,550 | 145,550 | 145,550 | 145,550 |
| Rate of Return | - | 17.2% | - | 16.4% |

() - Indicates Loss.

The staff witness included in his study estimated results of operation for the rate year under three suggested alternate fare structures.

These results, after adjustment for the above-mentioned modifications in operating expense estimates, are summarized in Table III below.⁴

TABLE III

Estimated Results of Operation
Under Three Alternate Fare Structures
Suggested by the Commission Staff
(As Adjusted)

| | <u>Alternate Fare Structure</u> | | |
|-------------------------|---------------------------------|-------------------------------------|-------------------------------------|
| | I | II | III |
| | 10¢ Cash Tokens 3 for 25¢ | 10¢ Cash Tokens 12 for \$1.00 | 10¢ Cash Tokens 11 for \$1.00 |
| Operating Revenues | \$294,840 | \$307,920 | \$323,460 |
| Operating Expenses | 302,322 | 302,322 | 302,322 |
| Net Before Income Taxes | (7,482) | 5,598 | 21,138 |
| Income Taxes | 25 | 1,836 | 6,933 |
| Net After Income Taxes | (7,507) | 3,762 | 14,205 |
| Operating Ratio | 102.5% | 98.8% | 95.6% |
| Rate Base | 145,550 | 145,550 | 145,550 |
| Rate of Return | - | 2.6% | 9.8% |

() - Indicates Loss.

All three alternates suggested by the staff contemplate retention of the present cash fare of ten cents together with token fares. The latter would cost 8-1/3 cents per ride under Alternates I and II and 9-1/11 cents under Alternate III as contrasted with the present basis of 7½ cents per ride. Different operating results are estimated under Alternates I and II, because of greater token use under the former than under the latter.

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Estimated operating results under Alternate I, as developed by the engineer, would show a profit after taxes, of \$2,811; however, with the adjustments in operating expenses hereinbefore discussed, a loss would be experienced.

Witnesses for applicant urged that no basis of fares be authorized involving tokens. They asserted that if token fares are continued in effect, but at a higher cost per ride than now obtained, it will be necessary for applicant to purchase new tokens of a larger size. Otherwise, the witnesses said, substantial loss of revenue will result from riders purchasing large quantities of tokens at the present rate and hoarding them until the higher basis of fares becomes effective. This loss was estimated to amount to \$6,000 - \$7,000. The witnesses estimated that the cost of purchasing new tokens and of converting the turnstyle machines to accommodate the larger tokens would be about \$10,000. The staff engineer pointed out, however, that other utilities have in the past increased their token rates of fare without changing the size of tokens and have not sustained any great loss of revenue in so doing.

The granting of the application was protested by American Legion Post No. 753 and by a group of North Island employee associations. A representative of these latter organizations, testifying in their behalf, urged the Commission to scrutinize the application closely, and expressed assurance that the Commission would "hold the reins" on the requested fare increase. The representative of the American Legion confined his participation to examination of applicant's witnesses. A naval officer, appearing for the commanding officer of the Naval Air Station at North Island, assisted in the development of the record.

Conclusions

It is apparent from the record herein that the rate relief accorded Star & Crescent Ferry Company by Decision No. 56292 of February 25, 1958, in Application No. 39202, is inadequate. In that proceeding the carrier and the Commission's staff estimated annual net income after taxes of \$9,385 and \$27,600, respectively, under the

fares sought therein: 10 cents cash and tokens at the rate of three for 25 cents. Under the alternate fare basis which was approved by the Commission, and which is now in effect, the staff estimated net income after taxes of \$13,690. These estimates of the carrier and the staff were for 12-month periods ending September 30, 1958 and December 31, 1958, respectively. In the instant proceeding both applicant and staff calculate, for annual periods which lag a few months behind those mentioned above, losses under said fares presently in effect. This circumstance appears to be due in large part to the fact that the decline in the number of passengers carried by applicant has, in recent months, been greater than was anticipated in the rate studies introduced at the hearing in Application No. 39202.

Applicant renders a highly essential service. According to the record, the carrier's patrons have no means other than via its ferry boats of traveling between San Diego and North Island. It is of prime importance, therefore, that applicant be kept in a sound financial condition, in order that the transportation service which it renders to the public may not be jeopardized. To this end the fare structure to be hereinafter authorized should be such as not to make necessary another early request for further relief.

As the Commission has repeatedly pointed out in other rate proceedings, operating ratios, rate bases, rates of return and other pertinent data are all valuable indices of earning requirements. In reaching its conclusions in such matters, the Commission has further stated, it considers all available data without limitation to any single method or formula. The paramount issue is that the final result shall be reasonable. It is clear from the record herein that under a continuation of the present fare structure applicant will continue to operate at a loss. After careful consideration of all the evidence we find as a fact that the fare increase which applicant

proposes, namely, cancellation of token fares with no change in the present cash fare of ten cents, has been justified. The application will be granted.

ORDER

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

IT IS ORDERED:

(1) That Star & Crescent Ferry Company 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 vessels 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.

(3) 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 15th day of October, 1958.

E. L. Fox
President

Paul J. [unclear]

[unclear]

Theodore [unclear]
Commissioners