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ORIGINAL

Decision No. 57607

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| In the Matter of the Application of SAN JOSE CITY LINES, INC., requesting authority to increase certain of its rates of fare. | Application No. 40282 |

John F. Balaam, for applicant.

James F. Eddy, for the Commission staff.

O P I N I O N

San Jose City Lines is a passenger stage corporation engaged in the transportation of passengers within and between the Cities of San Jose and Santa Clara and between those cities and adjacent areas. The fare structure for these operations is based upon three fare zones. The present fares are 10 cents cash for transportation within any one zone and 15 cents and 20 cents cash for the respective interzone movements. Tokens are offered at the rate of five for 45 cents, one token being accepted in lieu of 10 cents cash. For school children the fares are $1 for 20 intrazone rides and $1.40 for 20 interzone rides. By this application the company seeks authority to raise the present intrazone fare to 15 cents cash and the interzone fares to 20 cents and 25 cents cash. The token fare would be increased to the rate of two tokens for 25 cents. Authority is also sought to substitute for the present single zone and interzone school fares a single fare of $1.60 for 20 rides, which would be honored within and between all zones.

A public hearing of the application was held before Examiner Carter R. Bishop in San Jose on August 29, 1958. Advance notices of the hearing were posted in applicant's vehicles and published in a newspaper of general circulation in the area served. Notices were also sent by the Commission's secretary to persons and organizations believed to be interested.

Evidence in support of the application was offered through applicant's treasurer and its superintendent of transportation. Two associate transportation engineers from the Commission's staff also testified concerning studies which they had made of the carrier's service and equipment and of the financial results of its operations, respectively.

Applicant's fares were last adjusted pursuant to Decision No. 50745, dated November 4, 1954, in Application No. 35264. At that time token fares were increased from three for 25 cents to the present rate of five for 45 cents. No other fare changes were found justified. Since 1954, the record discloses, applicant has experienced increased costs of operation, due primarily to a series of advances in hourly wage rates.[1/] Coupled with the increase in operating expenses the carrier has suffered a continuing decline in patronage.[2/] According to the carrier's book records, as adjusted,

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1/ Beginning with July 1, 1955 six successive wage rate increases have taken place. Under the current labor contract a seventh increase will take effect on April 1, 1959. This will bring the total increase, since the last fare adjustment, to 34 cents per hour.

2/ According to a staff study, the number of passengers transported by applicant during the last 3½ years has been declining at the average rate of 3 percent per annum. In the last two years, applicant's study discloses, this downward trend has accelerated to an annual rate of 4½ percent.

net revenue of $40,287, after provision for income taxes, was earned from operations under the present fares during the 12-month period ending June 30, 1958. The operating ratio after taxes was 94.6 percent.

Estimates of operating results under present and proposed fares were introduced by applicant's treasurer and by one of the staff witnesses. The estimates were projected for the 12-month period ending September 30, 1959. At the hearing it developed that neither the expense forecast of applicant nor that of the staff gave effect to a recent change in the Federal tax law under which the social security tax rate is increased from 2¼ to 2½ percent of gross payroll expense. Also, the staff estimate of salaries of general office employees, the engineer witness stated, should be increased by $1,200. The estimated operating results for the rate year, as developed by the respective witnesses and as adjusted to give appropriate effect to the above mentioned expense items, are summarized in Table I below.[3/]

3/ The increase in applicant's annual expenses due to the new social security legislation (which was signed by the President on August 28, 1958) was estimated by the witnesses to range from $1,500 to $2,500. A figure of $2,000 has been used in the above mentioned adjustment.

TABLE I

ESTIMATED RESULTS OF OPERATIONS UNDER
PRESENT AND PROPOSED FARES FOR
THE 12-MONTH PERIOD ENDING SEPTEMBER 30, 1959

| | Applicant | | Staff | |
|---|---|---|---|---|
| | Present Fares | Proposed Fares | Present Fares | Proposed Fares |
| Operating Revenues | | | | |
| Passenger | $682,950 | $833,600 | $688,870 | $840,850 |
| Special Bus | 15,000 | 15,000 | 16,500 | 16,500 |
| Advertising | 15,000 | 15,000 | 15,250 | 15,250 |
| Miscellaneous | - | - | 600 | 100 |
| Total Operating Revenues | $712,950 | $863,600 | $721,220 | $872,700 |
| Operating Expenses | | | | |
| Operating & Maintenance | $616,210 | $616,210 | $617,910 | $617,910 |
| Depreciation | 23,661 | 23,661 | 15,690 | 15,690 |
| Operating Taxes | 60,140 | 60,825 | 59,620 | 60,330 |
| Total Operating Expenses | $700,011 | $700,696 | $693,220 | $693,930 |
| Net Before Income Taxes | $ 12,939 | $162,904 | $ 28,000 | $178,770 |
| Income Taxes | $ 4,244 | $ 82,338 | $ 9,598 | $ 90,893 |
| Net After Taxes | $ 8,695 | $ 80,566 | $ 18,402 | $ 87,877 |
| Rate Base | $133,944 | $133,944 | $133,610 | $133,610 |
| Rate of Return* | 6.5% | 60.1% | 13.8% | 65.8% |
| Operating Ratio* | 98.8% | 90.7% | 97.4% | 89.9% |

*After provision for income taxes.

The studies of applicant and of the staff were developed independently. The projections of revenues, and generally of expense, for the rate year, differ only in small degree as between the estimates of the respective witnesses. The differences in the two forecasts of certain expense categories are sufficiently great to require comment.

The carrier and staff estimates of depreciation expense are $23,611 and $15,690, respectively. The large difference between these figures, the record shows, is due to the difference in service lives assigned to the carrier's equipment in the two studies. Applicant allowed 12 years, while the staff estimated a 14-year life for the vehicles. The record shows that applicant's buses range in age from seven to twelve years. Moreover, the staff witnesses found the vehicles to be generally in good operating condition and testified that a 14-year estimate of service life was more realistic than a 12-year one.

In the matter of labor expense for repairs to revenue equipment the staff witness allowed $2,400 over the ordinary expense estimates to provide for deferred maintenance to the buses. Applicant made no such allowance in its study. The question of deferred maintenance will be hereinafter further discussed.

For public liability and property damage insurance the respective estimates of applicant and of the staff were: $28,000 and $32,500. Applicant's estimate, may be compared with the recorded book figure of $42,548 for this item for the 12-month period ending June 30, 1958. Applicant's estimate, the record reveals, is predicated on a sharp reduction which it recently enjoyed in its insurance premium rate. The estimate of $28,000 is the actual expense for this item which applicant will incur during the rate year based on its revenue estimate and the current premium rate.

The staff estimate of public liability insurance expense, the engineer stated, is based on actual experience of the carrier over a period of years, and is predicated on the number of accidents and the average cost per claim. This same procedure has been used by the staff in previous studies of this company and has generally resulted in a lower expense than that based on the company's premium rate. Applicant's premium rate, this witness pointed out is adjusted periodically upward or downward, depending upon applicant's claim experience.

For management, supervision and accounting applicant allowed, for the rate year, $23,200 while in the staff study a figure of $19,810 was employed. According to the record, the services in question are performed for account of applicant by Pacific City Lines. Charges assessed by the latter company are on the basis of a specified percentage of applicant's gross revenues. The staff estimate, the engineer testified, is the result of a study which the staff made of the management services performed by Pacific City Lines for its various system operating companies. In his opinion $19,810 was a fair measure of the value of these services.

The rate base estimates of applicant and of the Commission's staff are practically identical. There are two important differences in individual elements, however, which offset each other. The staff estimate of the average depreciated book cost of the carrier's equipment is about $16,000 greater than that of the carrier. On the other hand, the latter included in its rate base an allowance of $16,000 as use value for fully depreciated buses which are still in service. The staff made no such provision. The difference in the respective estimates of the depreciated value of the equipment is due primarily to the difference in service lives assigned to applicant's buses by applicant and the staff, respectively, as hereinbefore mentioned. As to the use value figure of $16,000 included by applicant, a staff witness stated that it is not now the policy of the staff to include an allowance for use value in its rate base estimate. He pointed out, moreover, that under the 14-year service life utilized by the staff, none of applicant's vehicles would be fully depreciated during the rate year.

The estimates of operating expenses for the rate year and of rate base as developed by the Commission's staff appear reasonable. They will be adopted for the purposes of this proceeding.

In addition to estimates of operating results under present and proposed fares the staff study included estimated results for the rate year under three suggested alternate fare structures. These results are summarized in Table II below. The expenses have been adjusted in the same manner and for the same reasons as those in Table I, supra.

TABLE II

ESTIMATED RESULTS OF OPERATION
UNDER THREE ALTERNATE FARE STRUCTURES
SUGGESTED BY THE COMMISSION STAFF

| Item | Alternate Fare Structures I: Cash 10¢ No Token | II: Cash 11¢ No Token | III: Cash 11¢ Tokens 5 for 50¢ |
|---|---|---|---|
| Total Operating Revenues | $746,910 | $786,710 | $763,650 |
| Total Operating Expenses | 693,330 | 693,510 | 693,410 |
| Net Before Income Taxes | 53,580 | 93,200 | 70,240 |
| Income Taxes | 23,390 | 44,753 | 32,373 |
| Net After Income Taxes | 30,190 | 48,447 | 37,867 |
| Rate Base | 133,610 | 133,610 | 133,610 |
| Rate of Return* | 22.6% | 36.3% | 28.3% |
| Operating Ratio* | 96.0% | 93.8% | 95.0% |

*After provision for income taxes.

School fares under Alternate I would be sold at a rate of 20 rides for $1.40 (7 cents per ride). This basis would result in an increase of two cents per ride in the single zone school fare, with no change in the interzone fare. Under Alternates II and III the present school fares would be continued in effect.

The Commission's staff also introduced an exhibit in which were set forth certain data reflecting applicant's financial position on December 31 of each year from 1946 to 1957, inclusive, and on June 30, 1958. The data shown included cash, material and supplies, total current assets, total current liabilities, ratio of current assets to current liabilities, unpaid equipment obligations, and dividends paid during the year.[4/]

According to the exhibit, total current assets increased from approximately $187,000 in 1946 to $332,000 in 1958, while current liabilities during the same period declined from $117,000 to $93,000. Cash on hand increased from $159,612 in 1946 to $313,291 in 1957, then receded to $288,898 in June, 1958. During the same period unpaid equipment obligations fell from $174,596 to $5,740.

The second transportation engineer testified concerning the results of a study he had made of applicant's service and equipment. He found in general that satisfactory standards of service are maintained. On-time performance is high and a detailed check of all of applicant's routes disclosed very few instances of overloading of buses. According to this witness, the carrier contemplates no changes in service. It has utilized the same number of buses since 1954.

The standard of maintenance, the engineer stated, is also generally satisfactory. He observed, however, that the interiors of some of the older buses were in need of renovation. He had brought this matter to the attention of applicant's managers and had recommended that they hire an additional man or at least increase the

4/ The figures in the exhibit were taken from balance sheets filed by applicant with the Commission pursuant to General Order No. 65.

maintenance labor time by four hours per day, in order to take care of the deferred maintenance.[5/]

No one appeared in opposition to the granting of the proposed fare increases.

Conclusions

Operating results of applicant under present fares for the projected rate year, as estimated by the Commission's staff and adjusted, will show net operating revenue, after income taxes, of $18,402, an operating ratio of 97.4 percent and rate of return of 13.8 percent. The evidence shows that a safe margin between operating revenues and operating expenses would not be provided by a continuation of present fares. On the other hand, the estimated results of operation under the proposed fares clearly demonstrate that increases to the extent sought by applicant would be excessive. These results, as shown in Table I, are: net operating revenue after income taxes, $87,877; operating ratio, 89.9 percent; and rate of return, 65.8 percent.

Alternate I, suggested by the staff for the Commission's consideration, would retain the present single zone cash fare of 10 cents, together with the present interzone cash fares, and would eliminate the token basis of fares. Also, a universal school fare of 20 rides for $1.40 (7 cents per ride), applicable in and between all zones, would be substituted for the present school fare structure. This structure, according to the estimated operating results in Table II, would produce net operating revenue after taxes of $30,190, reflecting an operating ratio of 96.0 percent and rate of return of 22.6 percent. The needed additional revenue would be provided by the aforesaid Alternate I fare structure and the operating results anticipated thereunder we find to be reasonable.

5/ Applicant's superintendent of operation testified that some of the maintenance work in question had already been done and that the company would carry out all of the staff's recommendations for improved maintenance.

It is here pertinent to comment on the estimated rates of return of record. These seemingly high rates result from the fact that the depreciated rate base on which the rates of return are calculated now reflects only 16.8 percent of the original book cost of the properties devoted to the service. In Decision No. 50745 (53 CPUC 624, 630)[6/] the Commission expressed its judgment that the rate of return resulting from the use of a rate base comprised mainly of substantially depreciated book cost of the carrier's properties was unrealistic and distorted. The depreciated rate base of record in that proceeding reflected 28.8 percent of the original book cost of applicant's utility properties.

The reasoning of the Commission in Decision No. 50745 is all the more cogent in the present proceeding, since the divergence between the depreciated rate base and the book cost of applicant's utility properties is even more pronounced than in 1955. Under the circumstances we conclude that rates of return predicated upon the estimated depreciated rate base are not a fair measure of the earning position of applicant, nor of the reasonableness of operating results under the various fare structures considered on this record.

As hereinbefore stated, applicant's vehicles range in age from seven to twelve years. While the record shows that these vehicles are in good working order it is apparent that soon applicant will find it necessary to begin replacement of the oldest buses with newer equipment. The favorable cash position of the utility indicates that it is able to take steps in that direction without calling upon outside capital. Accordingly, applicant is admonished that it

6/ In Application No. 35264, the proceeding involving San Jose City Lines' last (1955) fare increase.

will be expected to formulate a program of equipment replacement.

Upon careful consideration of all the facts and circumstances of record the Commission is of the opinion and hereby finds that increased fares to the extent provided for in the order which follows are reasonable and justified and that in all other respects applicant's proposals have not been justified. The Commission hereby further finds that applicant should be required to complete with reasonable celerity the renovation of its older buses as recommended by the Commission's staff and to file monthly progress reports with the Commission until said renovation has been completed.

In view of applicant's need for additional revenues, its counsel requested that publication of such increased fares as might be authorized be made effective on less than statutory notice. The request appears reasonable. It will be granted. For the same reason, the order authorizing the fare increases will be made effective ten days after the date hereof.

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 that:

1. San Jose City Lines, Inc., be and it is hereby authorized, on not less than five days' notice to the Commission and to the public, (a) to cancel its token basis of fares; (b) to establish, in lieu of its present school fares a school fare of 20 rides for $1.40, to apply within and between all zones; and that no change shall be made in any of the other fares maintained by said San Jose City Lines, Inc.

2. The authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

3. 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 remain posted for a period of not less than thirty days.

4. Applicant is hereby directed to complete with reasonable speed the renovation of its older buses as recommended to it by the Commission's staff, said renovation to embrace the matters enumerated in numbered paragraph "1" under the heading of "Recommendations", on page 3 of Exhibit No. 2 of record in the proceeding herein, and shall render to the Commission monthly in writing a report of the progress made in said renovation, until said renovation program is completed.

5. Applicant is hereby directed to formulate a program of equipment replacement, and shall render to the Commission a written report of said program within sixty days of the effective date of this order.

6. In all other respects Application No. 40282 be and it is hereby denied.

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

Dated at San Francisco, California, this 10th day of November, 1958.

E. L. Fox
President

Rex E. Hardy

Ray E. Untereiner

Matthew J. Dooley

Theodore H. Jenner
Commissioners