

ORIGINALDecision No. 69169

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CATALINA ISLAND SIGHTSEEING LINES, a California corporation, for authority to enter into a Bareboat Charter Party Agreement as to the SS Catalina and certain other agreements and to suspend certain passenger operations.

Application No. 41589

Application of M. G. R. S., INC., a corporation, for authority to operate a passenger service by vessel between Wilmington, California, and Avalon, Santa Catalina Island, California.

Application No. 41613

Gibson, Dunn & Crutcher, by Max Eddy Utt, for Catalina Sightseeing Lines, and interested party in Application No. 41613.

Vaughan, Brandlin & Baggot, by James H. Lyons, for M.G.R.S., Inc., and interested party in Application No. 41589.

Bill Krug, in propria persona, protestant.

Henry E. Jordan, Chief Engineer-Secretary, Bureau of Franchises and Public Utilities, for the City of Long Beach; Leslie Thuet and Howard Thuet, for Avalon Navigation Company; Mayor Harvey Cowell, for the City of Avalon; and Robert Ellis, for Avalon, Catalina Island Chamber of Commerce; interested parties.

Cyril M. Saroyan, for the Commission staff.

O P I N I O N

By Decision No. 59710, dated February 23, 1960, in the above-entitled applications, this Commission authorized the Catalina Island Sightseeing Lines, a corporation, and M.G.R.S., Inc., to enter into and make effective certain agreements which, among other things, had the effect of leasing to M.G.R.S., Inc., the SS Catalina for a period of two years, subject to certain restrictions set out in the decision. The decision also granted a certificate of public convenience and necessity to M.G.R.S., Inc.,

authorizing the transportation of persons and their hand baggage and of freight "between Wilmington in the City of Los Angeles and Avalon on Santa Catalina Island."

On April 7, 1960, in Avalon, a public hearing was held before Examiner Grant E. Syphers for the purpose of fixing the rates to be charged by M.G.R.S., Inc., in the operation of this steamer. On this date evidence was adduced and the matter submitted. It now is ready for decision.

At the outset it should be noted that Decision No. 59710 provided that any operations conducted under the certificate granted therein "shall be at the presently existing rates published by the Catalina Island Sightseeing Lines" unless and until changes are authorized by this Commission.

The presently existing rates published by the Catalina Island Sightseeing Lines provide for a one-way adult fare of \$2.96 and a one-half fare of \$1.48 for children. Round-trip tickets are twice these amounts. Likewise the present rates provide for a reduced fare commutation book to be sold at the rate of \$12.50 for ten rides. These commutation books can be purchased at Avalon only.

The applicant herein proposes to increase the adult fare to \$3.41, the children's fare to \$1.57, and to abolish the commutation books.

Testimony and exhibits were presented by the applicant and by the staff of this Commission. A comparison of the estimates for 12 months in the immediate future, so presented, is set out as follows:

<u>Item</u>	<u>Applicant</u>		<u>Staff</u>	
	<u>Present fares</u>	<u>Proposed fares</u>	<u>Present fares</u>	<u>Proposed fares</u>
Expenses	\$1,168,416	\$1,176,772	\$1,151,750	\$1,157,050
Revenues				
Passenger	914,940	1,072,020	981,940	1,127,180
Concessions and cocktail lounge	158,845	158,845	250,770	244,790
Other	-	-	1,820	1,820
Total Revenues	1,073,785	1,230,865	1,234,530	1,373,790

It will be seen from the foregoing that the principal differences are in the estimates of revenue. The applicant used a trend projection for the years 1951 to 1960, based upon the operation of one steamer. During the early part of this period two steamers were in operation part of the time. The staff used 1958 records for its estimate of traffic and revenue based on the position that any loss in traffic due to non-operation during 1959 would be offset by improved economic conditions in 1960 as compared to 1958 and increased advertising and promotion planned by M.G.R.S. The experience of this Commission has shown that there is a deflection of passenger revenue following any period of nonoperation and we cannot agree that the full effect of the increased promotion will be realized this year. Therefore, we believe the applicant's use of a projected trend to be more realistic in this situation.

As to the revenues estimated from concessions and the cocktail lounges, the applicant has made an estimate based upon the concessions sold during the last year of operations. In 1958 the total amount spent on concessions was \$132,000. No liquor has been sold on this steamer for a number of years. Since the present operation proposes to sell liquor, the applicant estimated some diversion of revenue. In other words, it was testified that a passenger who buys liquor to drink is not so likely to buy soft drinks or other types of concessions. Furthermore, considering the testimony

presented as to the number of passengers and the amount of money estimated to be spent on concessions, we now find that the applicant's estimates are reasonable. Therefore they will be adopted.

Applicant's estimate of expenses includes rental for the steamship leased from Catalina Island Steamship Lines which is in excess of the rental we found to be reasonable in Decision No. 59710, supra. The staff estimate of expenses will be adopted with the exception that the expenses for concessions will be reduced to conform to the level of revenue we are using.

Considering all of the evidence presented in this matter, and particularly in light of the reestablishment of the service after a one year break, we now find that the following estimates of results of operations under the proposed fares are reasonable.

Revenues	\$1,230,865
Expenses	1,130,950
Net Income (before income taxes)	99,915
Income Taxes	49,100
Net after Income Taxes	50,815
Operating Ratio	95.9%

Neither rate base nor rate of return is shown in the above tabulation as applicant, M.G.R.S., is leasing all of the facilities used and therefore has only a small amount of permanent investment involved in the operation. The record, however, does include an exhibit submitted by the staff showing results of operation based on expenses adjusted to reflect conditions that would prevail if the facilities were owned and operated by the same party. This exhibit indicates a rate of return of approximately 25 per cent for the amount of net income shown in the above tabulation. It should be pointed out that the rate base which this rate of return is based on includes only a nominal amount for the steamship as it has been fully depreciated. The above rate of return would indicate an unreasonably

high level of fares under normal conditions. However, considering the special circumstances surrounding the operation at this time we find that the estimated results of operation shown above will not be unreasonable when modified by the action which we shall take as to the commute books.

The applicant requested that the present commute fares be abolished. This record discloses that less than four per cent of the passengers used commute fares in previous years, largely because the commute books were sold at Avalon only and were intended for the use of the residents of the island. The file does disclose various protests to the abolishment of commute fares, and in view of the fact that this type of fare only amounts to a small percentage of the total business and the books are only sold at Avalon, we find no reason now to permit the discontinuance of these commute fares. The request to discontinue the sale of commute books will be denied. Applicant will be required to continue the sale of such books at the rate of ten rides for \$15. With this modification, the operating ratio will approximate 96.8 per cent.

Based upon the record we now find that an increase in passenger fares on the SS Catalina between Wilmington, in the City of Los Angeles, and Avalon on Santa Catalina Island, as prescribed in the following order is justified and reasonable.

O R D E R

Application as above entitled having been filed, a public hearing having been held thereon, the Commission being fully advised in the premises and hereby finding it to be not adverse to the public interest,

IT IS ORDERED:

(1) That M.G.R.S., Inc., be and it hereby is authorized to increase passenger fares on the SS Catalina between Wilmington, in the

City of Los Angeles, and Avalon, Santa Catalina Island, to \$3.41 for a one-way adult fare, \$1.57 for a one-way fare for a child twelve years of age or under, and to \$15 for a ten-ride commute book, which book shall be sold at Avalon only, and shall not be transferable. Within sixty days after the effective date hereof, and on not less than five days' notice to the Commission and the public, M.G.R.S., Inc., shall amend its tariffs to reflect the authority herein granted.

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

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

Dated at San Francisco, California, this 24th day of May, 1960.

Everett C. McKeage
President
Matthew J. Dooley
C. Lyn Fox
Theodore E. Jenner
Commissioners

EVERETT C. McKEAGE
President
MATTHEW J. DOOLEY
C. LYN FOX
THEODORE E. JENNER
Commissioners

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