

ORIGINAL

Decision No. 60253

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BALBOA ISLAND FERRY, a California corporation, to eliminate commutation rates for pedestrian ferry service and to raise rates for passenger automobiles and light trucks.

Application No. 42179

Mark A. Soden, for Balboa Island Ferry, applicant.

Glenn E. Newton, for the Commission's staff.

O P I N I O N

Applicant operates a common carrier ferry service for the transportation of persons and motor vehicles across Balboa Bay between Balboa and Balboa Island in the City of Newport Beach. By this application, as amended, it seeks authority to establish increased fares on less than statutory notice.

Applicant's present fares per one-way ride are as follows:

<u>Passenger</u>	<u>Fare *</u>
<u>Adult:</u>	
Cash	10 cents
Ticket	5 cents
(20-ride commutation ticket, \$1.00; use limited to purchaser only.)	
(60-ride family ticket, \$3.00; use limited to family members only.)	
<u>Child:</u>	
5 years or more, but less than 12 years....	5 cents
Less than 5 years, when accompanied by passenger paying adult fare.....	Free

<u>Vehicle (Including driver.)</u>	<u>Fare *</u>
Passenger car	25 cents
Truck (truck and lading weighing not more than 5,000 pounds):	
Rated capacity, 1 ton or less	25 cents
Rated capacity, more than 1 ton but not more than 2½ tons	35 cents
Vehicle, not otherwise specified	50 cents

* Cash fare unless otherwise stated.

Applicant's proposals in this matter involve the ticket fares for passengers and the vehicle fares or rates for passenger cars and for trucks of 1-ton capacity or less. The 5-cent ticket fares would be canceled and the 25-cent vehicle fares would be increased to 30 cents.

Public hearing on the application was held before Examiner C. S. Abernathy at Newport Beach on June 1, 1960. Applicant's president and its auditor testified, and an engineer of the Commission's staff submitted and explained an exhibit setting forth the results of a study which he had made of the operations.

According to the record in this matter, said operations have not returned a profit since 1957. Operating revenues and expenses for each of the past three years were reported by applicant as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Net Operating Revenues</u>
1957	\$101,172	\$ 96,340	\$ 4,832
1958	104,273	113,092	(8,819)
1959	109,812	112,210	(2,398)

 Indicates loss.

- Applicant's purposes in this matter are twofold:
- (a) To restore the operations to a profitable basis;
 - (b) To eliminate asserted inequities in the present fare structure.

Regarding the latter objective, applicant's president declared that the ticket fares and the vehicle fares for passenger automobiles and for trucks of 1-ton rated capacity or less are unduly low in relation to the other of applicant's fares. The ticket fares, he said, were first established years ago to accommodate residents of Balboa Island who then regularly patronized the ferry services. Due to changes in economic circumstances which have since occurred, the majority of such patrons have moved elsewhere, and there is now relatively little need for the tickets for the purposes for which they were first issued. Assertedly, the tickets are now purchased principally by vacationists who use them without regard to the limitations thereon. Applicant's president said that it is virtually impossible to restrict the use of the tickets to the bases on which they are sold, namely, to the use of the purchaser only or to the use of the members of a family only. Consequently, in actual practice the tickets provide the users with an avenue for avoiding fares that should apply; they deprive applicant of needed and justified revenues, and they place an unreasonable burden on the operations as a whole.

With respect to the vehicle fares or rates for passenger automobiles and for trucks of 1-ton rated capacity or less, applicant's president declared that said fares are low in relation to the fares for passengers, and that they are low in relation to the space occupied by the vehicles on the ferries. In this connection he pointed out that if allowance were made for the fact that the vehicle fare includes the transportation of the driver, the proportionate charge for the vehicle, even under the proposed fare of 30 cents, would be but 20 cents or only twice the fare for a person, notwithstanding the fact that a passenger car or truck occupies substantially more space on a ferry than does a person. The present

fare or rate for passenger automobiles, he said, has been in effect for more than 20 years.¹

Figures to show the anticipated results of operations under the sought fares were submitted both by applicant and by the Commission engineers. These figures are set forth below:

Estimated Revenues, Expenses and Earnings
For a Year's Operations under Proposed Fares

	<u>Applicant</u>	<u>Commission Engineer</u>
Revenues	\$119,833	\$112,900
Expenses		
Repairs	7,683	8,380
Depreciation	5,994	4,370
Wages	56,883	56,310
Fuel	4,668	5,370
General Officer's Salary	4,000	2,400
General Office Salaries	4,990	5,400
General Office Supplies and Expense	354	390
Law and Auditing	798	950
Communication and Utilities	220	330
Insurance	6,642	4,930
Pensions	7,070	3,050
Advertising	179	170
Franchises	2,208	2,260
Operating Rents	5,715	3,920
Social Security Taxes	2,075	2,360
Other Taxes	2,732	1,600
Total Expenses	<u>\$112,211</u>	<u>\$102,320</u>
Net Operating Revenues	\$7,622	\$10,590
Income Taxes	\$2,287	\$3,530
Net Income	\$5,335	\$7,010
Rate Base	\$89,715	\$74,550
Operating Ratio	95.5%	93.8%
Rate of Return	5.9%	9.4%

¹ It appears that the present fare or rate for trucks has been in effect since June, 1953, and that prior to that time the applicable fare was 50 cents per truck (including driver and lading) of not more than 5,000 pounds gross weight.

As the foregoing table shows, applicant and the Commission engineer are in substantial accord with respect to certain of their estimates. With respect to others, however, they differ materially. It appears that some of these differences may be attributed to the difference in periods upon which the estimates were developed. Applicant based its figures on its recorded experience for the year 1959. The engineer's figures were developed mainly on applicant's experience for the 12 months through March, 1960. Other of the differences stem from differences in the factors considered and in the allowances made therefor.

The revenue estimate of applicant was arrived at by increasing revenues for the year 1959 in proportion to the increases in fares sought. That of the engineer was reached from an analysis of applicant's traffic for the past five years with allowance included for the additional revenues expected to accrue if the sought fares are established. In effect, it appears that the two estimates represent the maximum and minimum revenues that may be reasonably anticipated during the coming year.

The principal items and amounts of expense in which the estimates of applicant and of the Commission engineer differ may be recapitulated as follows:

	<u>Applicant</u>	<u>Engineer</u>
Depreciation	\$ 5,994	\$ 4,370
General Officer's Salary	4,000	2,400
Insurance	6,642	4,920
Pensions	7,070	3,080
Operating Rents	5,715	3,920
Other Taxes	<u>2,732</u>	<u>1,690</u>
Total	\$32,153	\$20,390

The engineer's estimate of depreciation expense was reached on the basis of the expected service life of the property that is being depreciated, whereas that of applicant apparently was computed on a shorter period. The basis used by the engineer conforms to that which has been found to be reasonable in other

matters of this kind. It appears reasonable in this instance also. The engineer's estimates in this respect should be adopted.

Other of the foregoing expense estimates of the engineer reflect amounts which, in his judgment, should be sufficient to make reasonable provision for the items involved. For example, his estimate of \$3,080 for pensions was developed on the basis of lesser rates which are being paid by certain other companies for a lesser amount of pension coverage than that provided by applicant. His estimate of operating rents was based on the utilization of a lesser amount of terminal space than that contracted for by applicant. Discussion of these various differences does not appear necessary. In the determination of what expenses should be taken into consideration as grounds for the approval of fare increases, the propriety of the expenses that are claimed must necessarily be considered. In this connection, however, standards should not be applied that do not sufficiently take into account whether the alleged expense reductions are actually available to the carrier involved. Moreover, full consideration should be given to the relationship of the expenses in question to the carrier's over-all operations. The fact that some other carriers may be providing lesser pensions, for example, than is applicant herein does not necessarily establish that applicant's pension provisions for its employees are so improper that the company's managerial decisions in this respect should be disregarded, and a lesser amount than that which is being paid by applicant should be considered as the maximum reasonable amount to be allowed. On the evidence of record concerning the foregoing estimates of the engineer (except that for depreciation), it does not appear that the reductions in expense which are reflected in said estimates are either reasonably available to applicant or may be reasonably accomplished. Said estimates should not be adopted.

Upon consideration of the record herein, it is found and concluded that the figures in the following table, including those for rate base may be accepted as reasonably representative of

applicant's operations results for the coming year under the sought
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 fares.

Revenues		<u>\$119,833</u>
Expenses		
Repairs		\$ 8,380
Depreciation		4,370
Wages		56,310
Fuel		5,370
General Officer's Salary		4,000
General Office Salaries		5,400
General Office Supplies and Expense		390
Law and Auditing		950
Communication and Utilities		330
Insurance		6,642
Pensions		7,070
Advertising		170
Franchises		2,260
Operating Rents		5,715
Social Security Taxes		2,360
Other Taxes		2,732
Total Expenses		<u>\$112,449</u>
Net Operating Revenues		\$ 7,384
Income Taxes		
State	\$ 406	
Federal	<u>2,093</u>	\$ 2,499
Net Income		<u>\$ 4,885</u>
Rate Base		\$74,550
Operating Ratio		95.9%
Rate of Return		6.6%

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The rate base figure which is shown is that which was developed by the Commission engineer principally on the basis of the depreciated value of the operating properties. Applicant also computed a rate base figure on the depreciated value of the properties. Applicant's figure, however, includes provision for \$12,000 working cash. The reasonableness of this amount, as an average allowance for working cash, was not established. Applicant also developed rate base figures on the basis of the present value of its properties and on valuations which assume the properties to be worth 50 percent of their costs. Included also in these rate base figures are allowances of \$12,000 for working cash.

The Commission is of the opinion and hereby finds that the rate base, operating ratio and rate of return, as shown immediately above are reasonable and the sought increased fares are justified. Said fare increases will be authorized. Applicant's proposal to establish the increased fares and to make them effective on less than statutory notice likewise appears justified. The application will be granted in this respect also.

O R D E R

Based on the findings and conclusions contained in the preceding opinion,

IT IS HEREBY ORDERED that Balboa Island Ferry be, and it hereby is, authorized to establish and to make effective the following changes in its fares and rates on not less than five days' notice to the Commission and to the public:

1. To cancel present passenger fares which are based on the sale of tickets at the rate of 20 one-way rides for \$1.00 or at the rate of 60 one-way rides for \$3.00.
2. To increase to 30 cents the present 25-cent cash fare, or rate, per one-way trip, per vehicle (including driver thereof), for vehicles as follows:
 - a. Passenger automobiles
 - b. Panel trucks and trucks of 1-ton capacity or less.

IT IS HEREBY FURTHER ORDERED that the authority herein granted be, and it hereby is, made subject to the following conditions:

1. In addition to the required filing of tariffs, Balboa Island Ferry shall give notice to the public by posting on its vessels and in its

terminals an 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.

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

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

Dated at San Francisco, California, this 14th day of June, 1960.

Ernest R. Pease
President
John E. Maguire
William J. ...
S. ...
Theodore J. ...
Commissioners