

Decision No. 62003

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of AVALON NAVIGATION COMPANY for )  
authority to increase fares. )

Application No. 43055  
(Filed January 12, 1961)

James H. Radcliffe, for Avalon Navigation Company,  
applicant.

Max Eddy Utt, for Santa Catalina Island Company  
and Island Boat Service; W. B. Von Kleinsmid,  
for Avalon Air Transport, Inc.; Henry E. Jordan  
for the Bureau of Franchises and Public Util-  
ities of the City of Long Beach; and Ray E.  
Taylor, for the City of Avalon, interested  
parties.

Glenn E. Newton, for the Commission staff.

O P I N I O N

Avalon Navigation Company operates a common carrier service by vessel for the transportation of persons and property between Long Beach and Avalon, Santa Catalina Island. By this application it seeks authority to effect increases in its passenger fares at the earliest possible date.

Public hearings on the application were held before Examiner C. S. Abernathy at Avalon on March 22, 1961, and at Los Angeles on March 23, 1961. Evidence was submitted by applicant through its president and its secretary. An engineer of the Commission's staff also submitted evidence and participated in the development of the record.

Applicant's present fares, and those which it seeks to establish, are as follows:

	<u>Present</u> <sup>(a)</sup>	<u>Proposed</u> <sup>(a)</sup>
<u>Regular Fares</u>		
Adult:		
One way .....	\$2.99	\$3.91
Round trip .....	5.98	6.82
Child:		
One way .....	1.50	1.96
Round trip .....	3.00	3.41
<u>Commutation Fares</u>		
Adult or child, per one-way ride .....	1.50 <sup>(b)</sup>	1.477 <sup>(b)</sup>
<u>Party Fares</u>		
Groups of 25 to 49 persons, inclusive, per person, per round trip .....	(c)	5.45
Groups of 50 or more per- sons, per person, per round trip .....	4.59	5.00

(a) Inclusive of Avalon wharfage fees of 25 cents per person per one-way trip or 50 cents per person per round trip.

(b) Based on purchase of 10-ride book of tickets.

(c) Party fares are not currently provided for groups of less than 50 persons. Regular fares apply.

Applicant alleges that its present fares are unreasonably low and do not yield a fair return. It reports the following operating results from its services under present fares during the year 1960:

Revenues	\$117,379
Expenses	141,120
Loss ....	\$ 23,741

Factors which have contributed to these operating results assertedly are:

- a. A decline in patronage of applicant's services as a consequence of increased competition of other carriers.
- b. A decline in passenger travel to Santa Catalina Island.
- c. The initial establishment of fares at too low a level when applicant commenced operations in 1958.
- d. Increases in labor costs, and in costs of fuel and maintenance.

According to applicant's president the effect of the competition of other carriers upon his company's operations has been, and is, substantial. In this respect he referred particularly to the SS CATALINA, a vessel which is used in a competing common carrier passenger service between Wilmington and Avalon, and which has a capacity of about 1950 passengers.<sup>1</sup> This vessel was not operated during 1959. In 1960, however, its use was resumed. Applicant's president stated that largely as a result of the resumption of service by the SS CATALINA the volume of his company's traffic during 1960 diminished by 40 to 45 per cent below that for the previous year. He said, furthermore, that the factor of competition limits the increases in fares that his company may effect -- that if applicant is to remain competitive, its fares must be held to about the same level of the fares which are assessed for transportation of the SS CATALINA.<sup>2</sup>

Applicant and the Commission engineer both submitted estimates of future operating results on the bases that (a) present

<sup>1</sup> The capacity of applicant's vessel, the MAGIC ISLE, is 267 passengers.

<sup>2</sup> The round-trip fares which applicant seeks to establish are the same as those which apply on the SS CATALINA. The sought one-way fares for children and adults, respectively, are 25 and 50 cents higher.

fares are continued in effect and (b) the sought fares are established.<sup>3</sup> Generally speaking, the estimates reflect applicant's operating experience and current expense levels, and are much alike. In a major respect, however, the engineer's estimates of expenses differ from those of applicant. Applicant's estimate of general expenses includes an allowance of \$24,000 for general office salaries for the year through December, 1961. The corresponding estimate of the engineer for the 12 months ending with April, 1962, is \$10,000. In explaining his estimates, the engineer said that in relation to the nature and extent of the services which are involved, the allowance of \$10,000 is consistent with charges to expense which are made by other transportation companies for the same type of services, and is, moreover, consistent with amounts which have been found reasonable for rate-making purposes in other proceedings. The respective estimates of applicant and of the engineer are summarized in Tables Nos. 1 and 2 below.

Table No. 1

Estimated Financial Results of Operations  
Under Present Fares

	<u>Applicant</u> <sup>(a)</sup>	<u>Commission</u> <sup>(b)</sup> <u>Engineer</u>
Revenues		
Passenger	\$106,253	\$109,640
Other	1,600	1,600
	<u>107,853</u>	<u>111,240</u>
Expenses		
Maintenance	10,132	10,130
Depreciation	6,435	5,830
Traffic	24,840	23,680
Transportation	49,246	51,260
General Expense	45,167	29,780
Operating Taxes	3,464	2,500
	<u>139,284</u>	<u>123,180</u>
Net Operating Revenues	(31,431)	(11,940)
Income Taxes	100	100
Net Income	(31,531)	(12,040)
Rate Base	71,494	71,000
Operating Ratio	129.1%	110.8%
Rate of Return	-	-

(Loss)

(a) 12 months through December 1961.

(b) 12 months through April 1962.

<sup>3</sup> Applicant's depreciation expense is computed and recorded on a straight-line basis. This same basis is used for the payment of income taxes.

Table No. 2

Estimated Financial Results of Operations  
Under Proposed Fares

	<u>Applicant</u> (a)	<u>Commission</u> (b) <u>Engineer</u>
Revenues		
Passenger	\$129,250	\$125,710
Other	1,600	1,600
	<u>130,850</u>	<u>127,310</u>
Expenses		
Maintenance	10,132	10,130
Depreciation	6,435	5,830
Traffic	24,840	26,120
Transportation	53,076	51,260
General Expense	45,157	29,780
Operating Taxes	3,464	2,500
	<u>143,104</u>	<u>125,620</u>
Net Operating Revenues	(12,254)	1,690
Income Taxes	100	100
Net Income	<u>(12,354)</u>	<u>1,590</u>
Rate Base	64,904	71,000
Operating Ratio	109.4%	98.8%
Rate of Return	-	2.2

(Loss)

(a) 12 months through December 1961.

(b) 12 months through April 1962.

In view of applicant's report of losses under present fares, and in view of the expectations of further losses if present fares continue to apply, the record herein is clear that increases in applicant's fares should be effected if the services involved are to be sustained. Even with full allowance for the modification in expenses which was made by the Commission engineer in the development of his showing, it appears that establishment of the sought fare increases would provide applicant with only a small margin of revenues over expenses. The data which were adduced in said showing appear reasonable and are hereby adopted for the purposes of this decision. On the basis of said showing and on the other evidence of record, we find and conclude that the sought increases in fares have been shown to be justified. They will be authorized accordingly.

Applicant has requested that it be authorized to establish the increased fares at the earliest possible date. Because of the extent of the losses under present fares, the establishment of the increased fares on five days' notice to the Commission and to the public will be authorized and the effective date of the order herein will be 10 days after the date hereof.

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. Avalon Navigation Company be, and it hereby is, authorized to amend its Local Passenger Tariff, Cal. P.U.C. No. 1, to establish the fares which are set forth and identified hereinabove as "proposed fares" and which are also so set forth and identified in "Exhibit B" to the above-numbered application. The tariff publication authorized to be made as a result of the order herein may be filed not earlier than the effective date hereof, and may be made effective on not less than five days' notice to the Commission and to the public.

2. In addition to making the tariff filings required in connection with the establishment of the fares herein authorized, Avalon Navigation Company shall notify the public of said fare changes by posting a statement of said changes in its vessel and at its terminals. Said notice shall be posted not less than five days before the date that the changes are made effective, and shall remain posted until not less than ten days after said date.

3. 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 16th day of May, 1961.

*Ernest W. Ray*  
 President

*John E. Mitchell*

*E. Lynn Fox*

*George H. Hoover*

*Fredrick B. Haloboff*  
 Commissioners