

ORIGINALDecision No. 64090

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of PETE DRAKE, conducting as sole
owner certain automobile passenger
stage lines under the name of
TERMINAL ISLAND TRANSIT CO., to
increase rates and fares for the
transportation of passengers
between Long Beach, California,
and Terminal Island.

Application No. 44175

(Filed February 8, 1962)

William C. Price, for Pete Drake, applicant.R. W. Russell (by Paul L. Garver), for the
Department of Public Utilities and Trans-
portation, City of Los Angeles, interested
party.Gerald Desmond (by Edward T. Bennett), and
Henry E. Jordan, for the City of Long
Beach, interested party.Timothy J. Canty, for the Commission's staff.O P I N I O N

By this application Pete Drake seeks authority to estab-
lish increased fares for transportation services which he performs
as a passenger stage corporation in the Long Beach and Los Angeles
harbor areas. He alleges that his present fares do not return
sufficient revenues to meet the costs of his services, and that
increased fares are therefore necessary to the maintenance of his
operations.

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

	<u>Fare per One-Way Ride</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Adult, or child 12 years old or older</u>		
Cash	20 cents	25 cents
Token	16 $\frac{2}{3}$ cents (3 tokens, 50 cents)	20 cents (5 tokens, \$1.00)
<u>Student, going to or from school</u>		
	8 $\frac{1}{3}$ cents (12-ride ticket, \$1.00)	8 $\frac{1}{3}$ cents (12-ride ticket, \$1.00)
<u>Child</u>		
5 years or older, but less than 12 years	10 cents	10 cents
Less than 5 years	Free	Free

Public hearing on the application was held before Examiner C. S. Abernathy at Long Beach on April 23, 24, and 26, 1962. The granting of the application was opposed by the Commission's staff. Representatives of the City of Long Beach and the City of Los Angeles participated in the proceeding as interested parties.

For the most part the evidence in this matter is that which was submitted by applicant and a Commission engineer relative to applicant's financial results of operations (a) if present fares are maintained and (b) if the sought fares are established. Estimates which applicant and the engineer submitted in these respects are summarized in the following tables:

Table No. 1

Estimated Results of Operation
Under Present Fares

	<u>Applicant (a)</u>	<u>Commission Engineer (b)</u>
Revenues	\$267,794	\$267,460
Expenses	<u>284,990</u>	<u>240,044*</u>
Net Operating Revenues	(<u>\$ 17,196</u>)	\$ 27,416*
Income Taxes	-	<u>6,625*</u>
Net Income	(<u>\$ 17,196</u>)	\$ 20,791*
Rate Base	\$193,048	\$167,410
Operating Ratio	106.7%	92.2%*
Rate of Return	-	12.4%*

() Indicates loss

(a) For year ending with December, 1962.

(b) For year ending with March, 1963.

*Adjusted for insurance expense and to include provision for rerouting due to temporary closure of a bridge on applicant's route.

Table No. 2

Estimated Results of Operation
Under Proposed Fares

	<u>Applicant (a)</u>	<u>Commission Engineer (b)</u>
Revenues	\$330,978	\$311,160
Expenses	<u>284,990</u>	<u>240,834*</u>
Net Operating Revenues	\$ 45,988	\$ 70,326*
Income Taxes	<u>15,000</u>	<u>34,600*</u>
Net Income	\$ 30,988	\$ 35,726*
Rate Base	\$193,048	\$167,410
Operating Ratio	90.0%	88.5%*
Rate of Return	15.5%	21.3%*

(a) For year ending with December, 1962.

(b) For year ending with March, 1963.

*Adjusted for insurance expense and to include provision for rerouting due to temporary closure of a bridge on applicant's route.

As the foregoing tables show, applicant and the Commission engineer differed substantially in their estimates of operating results to be attained during the coming year. In general, applicant's estimates portray less favorable operating results than do those of the engineer.

The engineer's estimates of revenues were developed from an analysis of applicant's traffic, taking into consideration the factors of trend and probable diminution that would follow the establishment of the sought fare increases. Applicant's estimates apparently do not give similar consideration to these same factors.

With respect to the differences in expenses, the greatest differences between applicant's and the engineer's estimates relate to maintenance expense and administrative and general expense. The respective estimates for these expenses are as follows:

	<u>Applicant</u>	<u>Engineer</u>
Maintenance expense	\$59,169	\$42,900
Administrative and general expense	42,925	19,450

It appears that applicant's estimate for maintenance expense is based principally on his experience for 1961, except that it includes allowance for a reduction in expense that will result from the replacement of some of applicant's older buses by new equipment. The engineer's estimate likewise takes into account the replacement of the older buses. However, it is primarily a judgment figure, influenced by experience of Long Beach Motor Bus Company, another passenger stage corporation operating in the Long Beach area.

Applicant's estimate for administrative and general expense is essentially the same as the amount recorded for 1961, adjusted to include allowance for an increase in compensation for applicant's own services during 1962. The corresponding estimate of the engineer disallows a portion of applicant's compensation as a charge against the operations involved herein, and applies said portion against other operations in which applicant is also engaged.¹ The engineer's estimate also reflects a reassignment of some of the charges to administrative and general expense to other expense classifications and also to the other of applicant's operations.

One other difference between applicant's and the engineer's expense estimates which requires mention is that relating to insurance expense. Applicant's payments for public liability and property damage insurance are at the rate of a specified percentage of his gross revenues. These payments are subject to subsequent adjustment according to applicant's accident experience. The record shows that as so adjusted, applicant's payments for public liability and property damage insurance for 1961 amounted to \$14,146. The unadjusted payments for the year were \$18,235. Applicant's estimate for insurance expense was computed at the unadjusted rate on the grounds that he could not foretell what his experience for the year 1962 would be, and that he accordingly could not reasonably predict whether an adjustment would be forthcoming. On the other hand, the engineer based his estimate on the

¹ Applicant operates a gasoline service station and an automobile parking lot in conjunction with his passenger stage services.

adjusted rate. He contended, in effect, that the adjusted rate is the better indicator of the level of the costs that will actually be incurred during 1962.

In the matter of rate base, the \$193,048 estimate of applicant exceeds that of the engineer by \$25,638. This difference stems mainly from a difference between the valuations included for three new buses to be placed in service about July 1, 1962. The valuation which the engineer used was weighted to conform to the period covered by his estimates, namely, the year ending with March, 1963. Applicant's estimate was not so weighted.² A further difference between the valuations of the buses results in a difference in estimates of the service lives of the new buses. Applicant's estimate in this respect was developed on expected service lives of 10 years; that of the engineer was developed on service lives of 12 years.

Upon full consideration of applicant's and the engineer's estimates and the bases thereof, we are of the opinion that those of the engineer are the more representative of the revenues and expenses that may be reasonably anticipated for applicant's operations during the coming year. With certain exceptions they will be adopted as the basis for our conclusions and findings hereinafter.

The exceptions relate to the estimates for maintenance expense, administrative and general expense and rate base. They

²Since applicant's revenue and expense estimates were developed for the calendar year 1962, a conforming valuation of the new buses to reflect the portion of the year that they will be in service would be about \$41,000, whereas the valuation used by applicant is about twice that figure.

also involve a small adjustment in the engineer's estimate for depreciation expense.

As indicated hereinabove, the engineer's estimate of maintenance expense rests upon an analysis of applicant's accounts and upon his judgment based on experience of similar carriers and particularly of Long Beach Motor Bus Company. In relying upon the experience of Long Beach Motor Bus Company, the engineer did not undertake to show why said experience should be accepted as a valid measure of the maintenance expense applicable to applicant's operations. Except for the fact that the Long Beach Motor Bus Company also operates in the Long Beach area, there was no showing made which would establish that as to vehicles and operating conditions there is a close similarity between applicant's operations and those of the Long Beach Motor Bus Company. Neither was there a presentation of the maintenance costs of Long Beach Motor Bus Company which would permit an evaluation of said costs in relation to applicant's operations.

It appears that the engineer's estimate is low in relation to applicant's own experience. The engineer's estimate is 9.6 cents per mile of operations expected during the year through March, 1963. This figure compares with applicant's recorded experience since 1956 as follows:

<u>Year</u>	<u>Cents per Mile</u>
1956	10.0
1957	14.2
1958	*
1959	*
1960	11.6
1961	17.0

*Figures not provided.

The engineer's estimate of 9.6 cents per mile was based in part on the fact that the three new buses which applicant will place in service in July, 1962, will require relatively little maintenance during the first year of operation. In this connection it is noted, however, that in 1960, following the addition of two new buses to applicant's fleet in 1959, applicant's recorded cost experience was 11.6 cents per mile, and that in 1961 applicant's expenditures for maintenances rose to 17.0 cents per mile partly as a consequence of work done to cover maintenance deferred from prior years. Although the use of the three new buses plus the maintenance work that was done in 1961-62 will undoubtedly permit some reduction in maintenance expense during the coming year, we are not persuaded that a reduction as great as that contemplated by the engineer can reasonably be effected without deferral of repair and upkeep work necessary to the adequate maintenance of applicant's vehicles. We conclude that the amount that should be adopted as a reasonable charge for maintenance for the purposes of this proceeding should correspond to applicant's recorded experience of 11.6 cents per mile for the year 1960. On this basis the amount that will be so allowed is \$51,660.

Applicant's estimate of \$42,925 for administrative and general expense for 1962 is \$4,332 more than the amount recorded for this item of expense in 1961 and \$18,673 more than the recorded amount for 1960. Percentagewise, the 1962 figure exceeds that for 1960 by 77 percent. Applicant reviewed in his testimony the components of this expense item. He did not, however, undertake to show why his administrative and general expenses have increased so

substantially in the past two years and why the estimated level of such expenses for 1962 should be deemed to be a reasonable and prudent level of charges against his operations. We hold that on this record the propriety of his estimated charges has not been sufficiently established to provide an acceptable basis for an increase in his fares.

On the other hand, it appears that the engineer's estimate of \$19,450 for administrative and general expense is unduly low. Included in this estimate was an allowance of \$6,000 a year for the services that applicant performs in the management of the operations. This amount is \$4,000 per year less than that which was allowed as compensation for applicant's services in connection with the previous proceeding in which applicant's fares were reviewed and increases therein authorized.³ As indicated previously herein, the engineer asserted that such compensation which applicant derives in excess of \$6,000 per year should be a charge against the parking lot and service station operations. The record shows, however, that virtually all of applicant's time is devoted to the bus operations. We conclude that the reduction of \$4,000 a year which the engineer would make is not warranted. It appears, furthermore, that in certain other and lesser respects the allowances which the engineer included in his estimate for administrative and general expense are below a reasonable amount. We find that for the purposes of this proceeding the provision to be made for administrative and general expense should be \$25,000.

³Decision No. 57393, dated September 29, 1958, in Application No. 40193.

In the development of rate base the engineer assumed in effect that the three new buses which applicant is adding to his fleet on July 1, 1962, as replacements for old equipment would be in operation for only a portion of the year covered by his study. Although this assumption is correct as related to the engineer's study, the period with which this proceeding deals essentially is the forthcoming year. On this basis the rate base should reflect a year's operations. Adjustment of the engineer's rate base figure accordingly results in an amount of \$181,500, which amount is hereby adopted as a reasonable valuation of applicant's rate base for this proceeding. This adjustment will also entail a small adjustment of the engineer's allowance for depreciation to \$22,240.

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Restatement of the engineer's estimates in Tables Nos. 1 and 2 above ^{to} reflect the foregoing modifications thereof results in the following figures:

Table No. 3

Estimated Results of Operation
Under Present and Proposed Fares
Based on Anticipated Results of Operations
for Year through March, 1963 (as adjusted)

	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenues	\$267,460	\$311,160
Expenses	<u>256,546</u>	<u>257,336</u>
Net Operating Revenues	\$ 10,914	\$ 53,824
Income Taxes	<u>400</u>	<u>23,814</u>
Net Income	\$ 10,514	\$ 30,010
Rate Base	\$181,500	\$181,500
Operating Ratio	96.1%	90.4%
Rate of Return	5.8%	16.5%

Although applicant has alleged that he is faced with substantial operating losses under his present fares, it appears from the record developed in this matter that applicant's allegations rest largely on expense estimates which are excessive and unjustified for fare-making purposes. It appears from the data in Table No. 3 above that on the basis of revenues and expenses which may be reasonably anticipated in connection with applicant's operations during the ensuing year applicant's earnings from his present fares will be marginally below a sufficient level and those from the sought fares will be excessive and unreasonable. We find that the sought fare increases have not been justified. They will not be authorized.

As alternatives to the fare proposal just discussed, applicant submitted at the hearing two other fare proposals. Both would increase the present 20-cent cash fare to 25 cents. However, under one the present 16 2/3-cent token fare would be increased to 20 cents; under the other the token fare would be increased to 18 3/4 cents. Operating results under these alternative proposals, as computed on the basis of expenses and rate base conforming to those in Table No. 3 above are as follows:

	Alternative "A" (25 cents cash) (20 cents token)	Alternative "B" (25 cents cash) (18 3/4 cents token)
Operating Ratio	90.0%	91.3%
Rate of Return	17.3%	14.0%

We find that these alternate proposals likewise will produce earnings which are excessive and unreasonable. Neither will be authorized.

A more limited increase in applicant's earnings would result were applicant permitted to discontinue his 16 2/3-cent token fare with the consequence that his present cash fare of 20 cents would apply for all adult rides. On this fare basis the estimated results of operation for the forthcoming year would be as follows:

Revenues	\$275,543
Expenses	<u>256,700</u>
Net Operating Revenues	\$ 18,843
Income Taxes	<u>2,764</u>
Net Income	\$ 16,079
Rate Base	\$181,500
Operating Ratio	94.2%
Rate of Return	8.9%

Upon consideration of the record and the facts and circumstances shown, we find that the adequate maintenance of applicant's services for the public requires an increase in applicant's fares. We further find that the increases in fares which would result from the cancellation of applicant's present 16 2/3-cent token fares will result in reasonable earnings for applicant during the coming year. To this extent we find that increases in applicant's fares have been shown to be justified. The discontinuance of said token fares will be authorized. In the establishment of said increases in fares applicant will be authorized to effect the increases on five days' notice to the Commission and to the public.

ORDER

Based on the evidence of record and on the findings contained in the preceding opinion,

IT IS HEREBY ORDERED that Pete Drake, doing business as Terminal Island Transit Co., be and he hereby is authorized to amend his Local Passenger Tariff Cal. P.U.C. No. 7, on not less than five days' notice to the Commission and to the public, to cancel his present token fares based on the sale of tokens at the rate of three for 50 cents.

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

- a. In addition to the required filing of tariffs, Pete Drake shall give notice to the public of the fare changes herein authorized by posting in its vehicles and terminals a printed explanation of said fare changes. 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 five days after said effective date.
- b. The authority herein granted shall expire unless authorized within ninety days after the effective date of this order.

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

Dated at San Francisco, California, this 7th day of AUGUST, 1962.

George G. Hoover
President

Pete Drake

E. J. Fox

Arthur W. Page

Frederic B. Hill
Commissioners