

ORIGINALDecision No. 66149

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHLAND HARBOR)
 CRUISES, INC., a corporation,)
 for authority to adjust rates.)

Application No. 45371
 Filed April 23, 1963

James H. Lyons, for Southland Harbor Cruises,
 Inc., applicant.
Henry E. Jordan and Raymond H. Bredenkamp,
 for the Bureau of Franchises, City of Long
 Beach, interested party.
Glenn E. Newton, for the Transportation
 Division of the Commission staff.

O P I N I O N

Southland Harbor Cruises, Inc., operates a common carrier, sightseeing service by vessel within and about the Long Beach and Los Angeles harbor areas. By this application it seeks authority to increase its fares.

Public hearings were held before Examiner Abernathy, at Long Beach, on July 22, 1963, and at Los Angeles, on July 26, 1963. Evidence was presented by applicant's president, by its general manager, by its accountant, and by a Commission engineer. A representative of the City of Long Beach participated in the development of the record, and supported the authorization of such fare increases as necessary to the maintenance of applicant's services.

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

	<u>Present Fare or Rate</u>	<u>Proposed Fare or Rate</u>
I. <u>Scheduled Service</u>		
A. Los Angeles - Los Angeles Harbor cruise; (a) <u>Alamitos Bay cruise.</u>		
1. Fares per person, per trip		
Adult	\$ 2.27	\$ 3.00
Child, 12 years or older	2.27	3.00
Child, 5 years or older but less than 12 years	1.14	1.50
Child, less than 5 years	No charge	No charge
2. Fares per person, per trip for organized parties of 25 persons or more		
Adult	\$ 1.14	\$ 1.50*
Child, 12 years or older	1.14	1.50*
Child, 5 years or older but less than 12 years	.57	.75*
Child, less than 5 years	No charge	No charge
*Organized parties of 20 persons or more (a)		
B. <u>The Reef cruise; Ports O'Call cruise</u>		
Fares per person, per trip		
Adult	\$ 1.14	\$ 1.50
Child, 12 years or older	1.14	1.50
Child, 5 years or older but less than 12 years	.60	.75
Child, less than 5 years	No charge	No charge
II. <u>On-Call (Non-Scheduled) Service</u>		
MV "SHEARWATER", per hour	\$ 65.00	\$ 75.00
Minimum charge per en- gagement	97.50	112.50
MV "STAR", per hour	65.00	75.00
Minimum charge per en- gagement	97.50	112.50
MV "PRINCESS", per hour	85.00	100.00
Minimum charge per en- gagement	127.50	150.00

(a) For description of cruises, see Decision No. 62693.

Applicant alleges that as a consequence of increases in operating costs which it has experienced since its fares were established at their present level in 1961, its revenues are not sufficient to return its costs of service and to provide a reasonable return. It reports that for 1962 its financial results of operations were as follows:

Revenues	\$ 136,257
Expenses	<u>133,546</u>
Net Revenues	2,711
Income Taxes	<u>962</u>
Net Income	1,749
Rate Base	104,989
Operating Ratio	98.7%
Rate of Return	1.4%

Applicant estimated that if its present fares are continued in effect at their present level its operations for the year ending with April, 1964, will result in an operating loss of \$27,378, with an equivalent operating ratio of 120.3 percent, whereas if the sought fares are established and were in effect throughout the year it would earn a net income of \$3,215, with an equivalent operating ratio and rate of return of 98.1 and 3.1 percent respectively.

Estimates of applicant's operating results under present and proposed fares were submitted also by the Commission engineer. His estimates are summarized in the following table:

TABLE NO. 1

Estimated Results of Operations
Under Present and Proposed Fares
Year Ending with June, 1964

	<u>Present Fare</u>	<u>Proposed Fare</u>
Revenues	\$134,340	\$171,000
Expenses	<u>140,450</u>	<u>145,690</u>
Net Revenues	(<u>6,110</u>)	25,310
Income Taxes	<u>100</u>	<u>6,090</u>
Net Income	(<u>6,210</u>)	19,220
Rate Base	125,440	125,440
Operating Ratio	104.6%	88.8%
Rate of Return	-	15.3%

() Indicates loss.

On the basis of the figures which he had developed, the engineer concluded that applicant's present fares are unduly low and should be increased, but that fare increases as great as those sought are not justified. He recommended the authorization of fares which are about 7 percent less than those which applicant seeks. He estimated that applicant's operating results under such fares would be as follows:

TABLE NO. 2

Estimated Results of Operations
Under Fares Recommended by Commission Engineer
Year Ending with June, 1964

Revenues	\$ 158,820
Expenses	<u>143,940</u>
Net Revenues	14,880
Income Taxes	<u>2,560</u>
Net Income	12,320
Rate Base	125,440
Operating Ratio	92.2%
Rate of Return	9.8%

The differences between applicant's estimates and those of the engineer are attributable mainly to differences between the allowances included in the respective estimates for wages and employees' welfare, depreciation expense, traffic expense, general expense, and certain costs based on the hours of operation of applicant's vessels. The expense allowances of the engineer for wages and employees' welfare are greater than those of applicant; in other respects they are less.

With respect to the wage and welfare cost estimates, the record shows that applicant's labor contract with its employees terminated with July 3, 1963. At the time of the hearings on this matter, negotiations on the final terms of a new contract were still in progress. For this reason applicant did not undertake to include in its estimates provision for any increases in wage and welfare costs during the coming year.

On the other hand, the engineer included in his estimates allowances for wage increases of about 7-1/2 percent and for

welfare costs of \$4,530. These allowances were made on the basis that they reflect a commitment of applicant through offers in its negotiations. In this connection applicant's general manager testified that in his opinion the contract settlement would be reached on substantially the same terms as those offered by applicant.

We have heretofore held that in the determination of operating expenses for fare increase purposes no allowance will be made for wage increases which are not in the form of a definite commitment but are merely the subject of negotiations. Although in this instance the wage contract between applicant and its employees has not been consummated, we are persuaded, nevertheless, that the offer of applicant may reasonably be deemed to represent a minimum basis of settlement. The wage and welfare estimates of the engineer will be adopted.

The difference between the depreciation expense estimates of applicant and of the engineer stems, for the most part, from differences in the service lives which were assigned for depreciation purposes to applicant's vessels the SHEARWATER and the PRINCESS. Applicant's depreciation expense estimates for these vessels were developed on the basis of service lives of 10 years; those of the engineer were developed on service lives of 20 years.

Applicant particularly urged that the period of 10 years be adopted as the reasonable service life of the PRINCESS. Applicant's president testified that the vessel was 35 years old when purchased by applicant (about three years ago); that it is a vessel of limited use because it is propelled by side paddle

wheels; and that experience to date has proved that the vessel is less efficient and less suited to operation in harbor sight-seeing service than was originally anticipated. He said, furthermore, that the development of hydrofoil vessels and other developments in vessel construction in recent years have raised a question whether applicant should turn to newer types of vessels for its future services. He asserted that for this reason obsolescence is a factor that must be considered and allowance made therefor in the determination of what service lives are reasonable for the calculation of depreciation expense on applicant's vessels.

What constitutes a reasonable service life for a specific property is a matter to be decided in the light of the relevant circumstances. Insofar as the PRINCESS is concerned, we find that in view of the nature of the services provided thereby, of applicant's experience in the use of the vessel, and of the expected experience in said use a service life of 10 years is a reasonable basis for the computation of depreciation expense for the purposes of this proceeding. This finding is subject to review and revision in the light of future circumstances should applicant undertake to seek adjustments in its fares at a later date.

In other respects we find that the depreciation expense estimates of the engineer are reasonable and that they should be adopted. Adjustment of the engineer's total estimate to include allowance for depreciation on the PRINCESS in conformity with our finding relative thereto results in an increase of said estimate by \$4,533.¹

¹ With the increase of \$4,533 in the engineer's depreciation expense estimate, his rate base figure should be reduced by \$2,267.

Applicant's estimates of traffic expense and general expense include a salary increase of \$1,520 for applicant's agent which was not included in the engineer's estimate. Also included by the applicant, but not the engineer, was \$7,200 as salary for a general manager which he testified he intends to hire in the immediate future. These additional expenses appear reasonable and will be adopted.

The remaining principal difference between applicant's estimates and those of the engineer relate to the direct costs incurred by applicant in its various sightseeing trips. Applicant alleges that as a result of construction activities in the Long Beach Harbor it now must operate its vessels over longer routes. It further alleges that the extended routing has increased the duration of the trips involved by about one sixth. Applicant estimated that for the year through April 1964, its vessels would be operated for a total of 3,722 hours.

On the other hand, the engineer estimated that for the year through June 1964, applicant would operate its vessels for a total of 3,390 hours. He reported that for the year through December 1962, applicant's records show that its vessels were operated for a total of 3,388 hours. He further reported that the logs of the vessels for 1962 show virtually the same number of hours per trip prior to the change in routing as subsequent to the change in routing. From this fact he concluded that irrespective of the extensions in routes, the total of vessel operating hours would not be materially changed from that for 1962.

The record is clear that applicant has had to extend its routes. Nevertheless we are not convinced that the change in routing has had the effect of increasing the hours of operation

of applicant's vessels as claimed by applicant. We find that the engineer's expense estimates which are based on the hours of vessel operation are reasonable. Said estimates will be adopted.

Except in the respects indicated above, the differences between applicant's and the engineer's estimates are not of consequence and need not be discussed. For the purposes of our findings and conclusions herein, the engineer's estimates, modified or adjusted to the extent discussed above, will be, and hereby are, adopted as reasonable. The modified estimates are set forth in the table below:

TABLE NO. 3

Estimated Results of Operation
Under Proposed Fares and Under Fares Recommended
by the Commission Engineer
Year Ending with June, 1964

	<u>Fares Proposed by Applicant</u>	<u>Fares Recommended by Engineer</u>
Revenues	\$ 171,000	\$ 158,820
Expenses	<u>158,943</u>	<u>157,193</u>
Net Revenues	12,057	1,627
Income Taxes	<u>3,142</u>	<u>100</u>
Net Income	8,915	1,527
Rate Base	123,173	123,173
Operating Ratio	94.79%	99.04%
Rate of Return	7.24%	1.24%

The evidence in this matter is clear that applicant is incurring, and will continue to incur, operating losses under its present fares. Accordingly, it follows that increases in applicant's fares should be authorized in order that the services involved may be sustained. Regarding the volume of the fare

increases that should be authorized, the record is clear that if the expense adjustments which are discussed above are taken into account, the fares which were recommended by the Commission engineer will not provide sufficient revenues to return the costs of the services plus a reasonable allowance for profit. On the other hand, it appears that the earnings which applicant would realize under the sought fares would not be excessive and would be consistent with those which we have found to be reasonable heretofore for common carrier services involving the transportation of persons by vessel.

Upon consideration of the record in this proceeding we find that:

1. Applicant's revenues under present fares will not be sufficient to maintain applicant's services during the coming year;
2. The level of earnings which Table No. 3 shows would result from establishment of the fares and rates which applicant seeks is, and will be reasonable for applicant's operations; we find a rate base of \$123,173 to be reasonable;
3. The establishment of the sought fares and rates has been shown to be justified.

The application should be granted. Also, applicant should be authorized to establish the proposed fares on less than statutory notice in order that any losses under present fares may be minimized. In addition the Order which follows will be made effective twenty days after the date thereof.

O R D E R

IT IS HEREBY ORDERED that:

1. Southland Harbor Cruises, Inc., is authorized to establish the increased fares and rates which are identified in the Opinion above as "Proposed Fare or Rate." Tariff publications

authorized to be made as a result of the order herein may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public.

2. The authority herein granted shall expire unless exercised within ninety 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 vessels and at its terminals an 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.

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

Dated at San Francisco, California, this 15th day of OCTOBER, 1963.

William A. Burns
President

John E. Mitchell

Robert A. Reag

George H. Trover

Friedrich B. Habelhoff
Commissioners