SW/EP*

ORIGINAL

Decision No. 66265

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Transit System for authority to increase fares.

Application No. 45418
(Filed May 19, 1963)
(Amended June 19, 1963)

Leon W. Scales, for applicant.

Edwin L. Miller and Stanley M. Lanham, for the City of San Diego; Thomas D. McGeary, for the County of San Diego, and William L. Todd, Jr., for National City, interested parties.

B. A. Peeters, for the Commission staff.

INTERIM OPINION

The San Diego Transit System operates a common carrier passenger stage service within and between the City of San Diego and adjacent cities and communities. By this application it seeks authority to establish increased fares and revised fare zones on less than statutory notice.

Public hearings on the application were held before Examiner Abernathy at San Diego on July 17, 18, 19, and 29, 1963, and on August 2, 12, and 13, 1963. Evidence was presented by applicant's general manager, by engineers of the Commission's staff and by various patrons of applicant's services. Representatives of the City of San Diego, of National City and of the County of San Diego participated in the hearings. On August 13, 1963, the matter was taken under submission for decision on an interim basis. In other respects it was continued to a date to be set.

Applicant's present fares are assessed at the rate of 25 cents cash per one-way ride for the transportation of adults within a single fare zone or between two contiguous fare zones. For transportation beyond two contiguous zones an additional charge of 8 cents per zone is made.[1/] Reduced fares are provided for children and for children going to and from school.

Applicant seeks to increase its 25-cent fare to 30 cents, to establish an alternate token fare of 27½ cents based upon the sale of tokens at the rate of 4 for $1.10, and to convert its present cash fare of 15 cents per ride for school children to a 15-cent token fare based upon the sale of tokens at the rate of 6 for 90 cents. No change would be made in the additional charge of 8 cents per zone for transportation beyond two zones; however, the exception with respect to the 3-cent charge into the seventh zone would be eliminated, thus making the 8-cent zone charge uniformly applicable into all zones.

The revisions which applicant seeks to make in its fare zones reflect an endeavor of applicant to adjust its zones to conform to current transportation conditions. For 32 percent of the passengers the changes in zones would require an additional zone fare increment over that which the passenger now pays. For a minor number of passengers, 0.2 percent, fare reductions would result. For the other passengers, however, the zone changes would not affect the fares that would otherwise apply.

1/ For transportation into the seventh zone, the additional charge is 3 cents instead of 8 cents.

Applicant alleges that increases in its fares have been made necessary by decreasing revenues resulting from a severe and prolonged downtrend in its traffic, by wage increases it has recently granted to its employees, by further wage increases to which it is committed, and by various tax increases. Applicant's general manager estimated that unless higher fares are established to offset the decreases in revenues and the increases in operating costs, applicant's operations for the year through September 1964, will result in a loss of $359,280 with a corresponding operating ratio of 106.8 percent. A commission engineer estimated a loss of $115,100 and an operating ratio of 102.1 percent under the same conditions.

Applicant's general manager and the engineer also presented estimates, and testified at length, concerning the operating results that applicant would realize from establishment of the sought fare increases and the revised fare zones. The general manager estimated that for the year through September 1964, applicant would earn $177,520, and that the equivalent operating ratio would be 97 percent. The engineer estimated that applicant's earnings would amount to $350,500, and that the equivalent operating ratio would be 94.3 percent. The differences between the estimates are attributable mainly to differences between the respective estimates of traffic volume and corresponding revenues and of expenses as follows: maintenance, injuries and damages, dues and donations, depreciation and the resulting income taxes.

Opposition to establishment of the increased fares and revised fare zones was expressed by a number of applicant's patrons who stated that they must rely on applicant's services for their transportation needs. In general, they said that they are living on fixed incomes, that they cannot afford to pay higher fares, and that the establishment of the increased fares would work a particular hardship on them.

Applicant's principal allegations herein--that its revenues under present fares are not sufficient to meet the costs of its services and to return a reasonable allowance for profit--are supported both by applicant's showing and by that of the Commission engineers. Were applicant's needs for additional revenues and for fare increases to produce said revenues to be measured wholly in relation to applicant's losses under present fares and in relation to the anticipated earnings under the proposed fares, it might be concluded that the increased fares which applicant seeks, or fares which were proposed by the Commission engineers in the alternative, should be authorized.[2/] It is evident from the record, however, that there are other considerations that should be taken into account.

Although applicant attributed its losses under present fares primarily to a decreasing trend of its traffic and to increases in its operating expenses, the evidence indicates that material losses may also be resulting from applicant's operations over certain routes and from the special services which applicant provides in the transportation of students to and from school. According to the general manager, the operations over eight of applicant's routes (about one-third of the total routes served) return revenues which are less than the average out-of-pocket costs of service. Regarding the school services, the general manager stated that studies which he made about two years ago indicate that said services were then and are now being provided at a substantial loss.

2/ The engineers recommended that applicant be authorized to increase its basic adult fares as proposed, but that the sought authority to revise fare zones and to establish a token fare for students going to and from school be denied.

The losses which applicant is experiencing and will experience under present fares stem in part from causes other than the decreases in revenues and the increases in operating costs which apply to applicant's operations generally. This prompted the examiner to question whether the losses from the other causes provide a reasonable basis for authorization of general fare increases of the full amount sought, or whether, in the alternative, both applicant and the public interest would be better served by authorization of lesser fare increases to meet applicant's general needs and by taking separate action to deal with the other losses. He proposed that studies along this line be undertaken by applicant and other interested parties, both individually and cooperatively; that further hearings be scheduled for the receipt of evidence and recommendations developed as a result of said studies, and that in the meantime only such adjustments be made in applicant's fares as are necessary to sustain applicant's operations until determination can be made of applicant's revenue needs in the light of all pertinent circumstances.[3/]

3/ The examiner suggested that in the matters to be studied attention should be given to:

a. Services over routes that are not returning out-of-pocket costs;

b. Night and holiday services, and whether a surcharge should apply thereto;

c. Transportation of students and the fares therefor;

d. To what extent a spread should be maintained between cash and token fares in order that the occasional riders at cash fares equitably bear a portion of the costs of the standby transportation services which applicant in effect maintains for said riders;

e. To what extent incentive fares should be provided to encourage riding during base periods;

f. Whether present fare zones should be retained or whether they should be revised either as proposed by applicant or otherwise.

The program which was suggested by the examiner was endorsed by the representative of the City of San Diego, who asserted that were fare increases and fare zone changes as sought to be authorized at this time without further thought to possible alternatives, the results could be disastrous to the San Diego community. The representative of National City concurred that further studies should be made. All parties stated their willingness to participate cooperatively in the development of additional data and recommendations, and indicated that they could be ready to proceed in further hearings in January 1964.

In conformity with understandings thus reached as to further study and consideration of applicant's operations, fare structure and revenue needs, the matters to be referred to the Commission in this initial phase of this proceeding were confined to those pertaining to interim adjustment of applicant's fares pending the development of, and decision on, applicant's revenue needs in the light of a more complete record.

It was recommended by the engineers of the Commission's staff that for interim purposes applicant be authorized to increase its present fare of 25 cents cash for transportation within two contiguous zones to 30 cents cash; that with the establishment of the 30-cent cash fare applicant be also authorized and required to establish a 25-cent token fare (based upon the sale of tokens at the rate of 4 for $1.00) for transportation within two contiguous zones; and that the sought changes in zones and the conversion of present student cash fares to equivalent token fares be denied. Operating results under such fares for the six months' period ending with March 1964, adjusted to an annual basis, were estimated by the engineers as follows:

Revenues	$5,753,800
Expenses	5,450,400
Net Operating Revenues	$ 303,400
Income Taxes	124,300
Net Income	$ 179,100
Rate Base	$3,154,100
Operating Ratio	96.9%
Rate of Return	5.7%

On the other hand, applicant's general manager urged that a cash fare of 30 cents and a token fare of 27½ cents (based upon the sale of tokens at the rate of 4 for $1.10) be authorized as the basic fare for applicant during the interim period. He estimated that under such fares applicant's operating results for the seven months through April 1964, adjusted to an annual basis, would be as follows:

Revenues	$5,788,700
Expenses	5,559,480
Net Operating Revenues	$ 229,220
Income Taxes	112,700
Net Income	$ 116,520
Rate Base	$3,513,500
Operating Ratio	98.0%
Rate of Return	3.3%

Except for the fact that the foregoing estimates of the Commission staff engineers were developed upon a lower basis of fares than that upon which the estimates of the general manager were developed, the respective estimates differ mainly for the same reasons that the engineers' and the general manager's estimates which have been reported earlier herein differ. As previously stated, the chief differences are in the estimates of traffic volume and related revenues and in the estimates of the following expenses: maintenance, injuries and damages, dues and donations, depreciation and income taxes. The engineers' estimate of traffic volume is about 3 percent more than that of the general manager and the engineers' corresponding estimate of revenues is about 4 percent more than that of the general manager. The difference between the estimates results mainly from the fact that in evaluating the trend of the traffic the general manager gave somewhat greater weight to applicant's experience during the latter part of the period analyzed--during the first half of 1963--than did the engineers. The differences essentially are differences in judgment. It appears from our review of the respective showings that the level of applicant's traffic and revenues will be less than that forecast by the engineers. We are of the opinion that the volume of traffic which applicant will actually realize will be about 2 percent less than estimated by the engineers, and we hereby adopt said lesser amount as reasonable for this decision.

The general manager's estimate of maintenance expense includes provision for an increase in the wages of applicant's mechanics for the year commencing with October 30, 1963, whereas the estimate of the engineers does not. According to the testimony of the general manager, it has been applicant's experience for a number of years that the settlement of wage contracts with its mechanics has followed the pattern of settlement of wage contracts with applicant's drivers. The general manager said that in his judgment the contract to be negotiated with the mechanics for the coming year would be on no lesser basis.

We long have held in matters of this kind that speculative wage increases will not be taken into account in the fixation of fares. It appears, however, that the provision for the wage increases in question does not come within this category, inasmuch as it represents only the minimum basis of settlement that the general manager expects will be made. The general manager's estimate in this respect will be adopted.

For the most part the differences between the general manager's and the engineers' estimates of injuries and damages expense, dues and donations, depreciation expense and income taxes are quite substantial. In general, the processes by which the engineers' estimates were developed conform to procedures followed and approved in earlier proceedings involving adjustments of applicant's fares. Although it may be that the engineers' estimates should be modified in some respects, it appears that any differences that would be developed would not be sufficient to affect our findings and conclusions herein. Other and lesser differences between applicant's and the engineers' estimates which have not been touched upon heretofore are offsetting to a large extent and need not be reconciled. For the purposes of this interim decision we hereby adopt as reasonable the engineers' expense estimates subject to the exception noted above.

In view of our findings relative to adjustments in the revenue and expense estimates of the engineers, it is evident that the earnings which applicant would realize under the fares that the engineers recommended be established for interim application will not be as great as predicted. On the adjusted basis it appears that under said fares applicant's net revenues, annualized, would approximate $115,000 after allowance for income taxes and that the equivalent operating ratio and rate of return would be about 98 percent and 3.6 percent, respectively. Such earnings, we believe, would be unreasonably low for applicant's operations, even on an interim basis. The fares which should be prescribed in the present phase of this matter should permit somewhat higher earnings.

An alternative basis of fares which would yield higher earnings and yet conform essentially to the fares which the engineers recommended would be that which would result in the establishment of a cash fare of 30 cents and a token fare of 25 cents (tokens to be sold at the rate of 6 for $1.50) as applicant's basic fares.4/ We estimate that the earnings which applicant would realize under said fares would, in terms of operating ratio and rate of return, be about midway between the operating ratio and rate of return of 96.9 percent and 5.7 percent, respectively, developed on the unmodified estimates of the engineers, and the 98 percent and 3.6 percent, respectively, developed on the modified estimates. We find said earnings to be reasonable for applicant's operations pending hearings and decision on the additional studies hereinbefore discussed.5/

4/ A further fare adjustment which should be deemed to be part of this alternative basis of fares is an increase to 8 cents of the present 3-cent interzone fare that applies between the sixth and seventh fare zones. This increase would eliminate an exception to the 8-cent interzone fares that apply otherwise.

5/ Applicant argued that it should be permitted to earn higher earnings than those found to be reasonable herein. The establishment of the fares which were recommended as interim fares by applicant's general manager would have the result of imposing losses from the school services and from services over certain routes upon nonusers of those services. As previously indicated, the determination of what action would be reasonable with respect to these losses is one of the reasons for the further studies.

We further find that the increase in fares authorized herein has been shown to be justified. Said fares will be authorized by interim order. Authority also will be granted to establish said fares on five days' notice to the Commission and to the public.

INTERIM ORDER

IT IS ORDERED that:

1. San Diego Transit System be, and it hereby is, authorized to amend its Local and Joint Passenger Tariff No. 3, Cal. P.U.C. No. 7,

a. To increase to 30 cents the present cash fare of 25 cents which applies per adult one-way ride between points in the same fare zone or into two contiguous fare zones;

b. To establish a 25-cent token fare, based on the sale of tokens at the rate of six for $1.50, said fare to be applied in lieu of the 30-cent cash fare;

c. To increase to 8 cents the present interzone fare of 3 cents for transportation between the sixth and seventh fare zones from the first fare zone and to make corresponding increases where the present interzone fare otherwise is 3 cents.

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. The tokens to be used in conjunction with the token fare hereinabove authorized shall be different in size and appearance from tokens used by any other common carrier of passengers operating within the area served by San Diego Transit System.

4. In addition to the required filing of tariffs San Diego Transit System shall give notice to the public by posting in its vehicles a printed 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.

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

Dated at San Francisco, California, this 5th day of NOVEMBER, 1963.

William M. Bennett
President

Peter E. Mitchell

Everett C. McKeage

George G. Grover

Frederick B. Holoboff
Commissioners