

**ORIGINAL**Decision No. 68300

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, Terminal  
 Island, and San Pedro, California.

Application No. 46625

(Filed May 11, 1964)

William C. Price, for Pete Drake, doing  
 business as Terminal Island Transit  
 Co., applicant.

Henry E. Jordan and Louis Possner, for  
 the Bureau of Franchises and Public  
 Utilities, City of Long Beach,  
 interested party.

R. W. Russell (by K. D. Walpert), for  
 the Department of Public Utilities  
 and Transportation, City of Los Angeles,  
 interested party.

Steve Edney, for the Cannery Workers Union  
 of the Pacific, protestant.

E. L. Morris, for the Tuna Research  
 Foundation, protestant.

William S. Rule, for Van Camp Sea Food  
 Company, protestant.

Joseph J. Zaninovitch, for Star-Kist  
 Foods, Inc., protestant.

Franklin G. Campbell and Sidney A. Scott,  
 for the Commission's staff.

O P I N I O N

Applicant transports persons as a passenger stage corpo-  
 ration between Long Beach, San Pedro and intermediate points on  
 Terminal Island. By this application he seeks authority to estab-  
 lish increased fares on less than statutory notice.

Public hearing on the application was held before Examiner Abernathy at Long Beach on June 24 and August 5 and 6, 1964. Evidence was presented by applicant, by representatives of various of applicant's patrons, and by a member of the Commission's staff. Representatives of the City of Long Beach and of the City of Los Angeles participated in the proceeding as interested parties.

Applicant's fares are maintained on a two-zone basis. For transportation within one zone the applicable fare for adults (including children older than 12 years of age) is 20 cents a ride. For transportation between zones, the fare is 30 cents a ride. Lower fares apply for children of 12 years of age or younger and for students.

Applicant seeks authority to effect a 5 cent increase in his adult fares. He does not propose any increases in his fares for children and students.

Applicant alleges that increases in his fares are necessary to compensate for increases in operating costs which he has experienced as a consequence of changes that he has had to make in his operations. He said that, in addition, his operating costs have increased as a result of increases which he has had to grant in the wage rates of his employees and as a result of increases which have become applicable in certain other of his operating expenses.

Until the latter part of 1963 applicant operated between Long Beach and the Terminal Island terminal of the ferry that then plied between the island and San Pedro. In November, 1963, the Vincent Thomas Bridge between Terminal Island and San Pedro was opened and the ferry service was terminated. Applicant thereupon

realigned his routes so as to serve San Pedro directly via the bridge. Moreover, in order to serve canneries which are located on Terminal Island, applicant also had to institute a branch line service. Applicant stated that these route changes had added materially to the distance traversed in his operations, and had increased his operating costs accordingly without any noticeable benefit in the form of increased revenues. He said that with the extension of his service into San Pedro he has been able to gain some traffic which he had not enjoyed previously. On the other hand, however, he experienced losses in other of his traffic. The over-all effect, he said, is that his total revenues have remained relatively unchanged.

As to other increases in his operating costs, applicant testified that he recently entered into a new wage contract with his drivers which provides for wage increases of 7 cents an hour in July, 1964, and January, 1965, and a further increase of 6 cents an hour in July, 1965. He said, furthermore, that the level of almost all of his costs has risen because of an increase in vehicular traffic on Terminal Island since the opening of the Vincent Thomas Bridge and because of other related circumstances which have adversely affected his operations.

Applicant testified that his operations are now being conducted at a loss. He reported that for the year ending with December, 1963, he experienced an operating loss of \$1,450, and that for the year ending with March, 1964, his loss was \$8,467. His corresponding operating ratios for these periods were 100.4 percent and 102.8 percent, respectively.

At the hearing on June 24, 1964, a union representative of various of applicant's patrons who use applicant's services between San Pedro and canneries on Terminal Island appeared in opposition to the sought fare increases. In general, he complained that applicant's service is unsatisfactory, and he asserted that it does not merit higher fares. Representatives of several of the canneries also opposed the sought fare increases for similar reasons.

Following the receipt of these service complaints, the Commission's staff moved for a continuance of the hearings in order to permit investigation into the matters against which the complaints were directed. With applicant's concurrence, the hearing of June 24 was continued to August 5, 1964, for the purposes indicated.

At the hearing of August 5, a Commission engineer reported that he had conducted a survey of applicant's services with specific reference to the complaints involved. Said complaints were that:

- a. There is overcrowding of the buses;
- b. The drivers are discourteous;
- c. Applicant's patrons have to wait too long for the buses;
- d. The distance between bus stops is too great; and
- e. Applicant's bus schedules are not being maintained.

The engineer reported that in his survey he had found that, in general, applicant is providing a reasonably adequate service, but that in some respects improvements could be effected. He said that he had conducted conferences with the parties involved, and had been able to bring about improvements which include better control of the number of standees, a program toward better understanding and courtesy between applicant's patrons and drivers, the establishment of more convenient bus stops and the construction of a passenger

shelter. With respect to the complaint that schedules are not being maintained, he said that applicant's schedules are subject to interruptions over which direct control is not possible. He explained that applicant's operations are conducted over a pontoon bridge between Long Beach and Terminal Island, and that this bridge is closed for unpredictable periods to permit the passage of vessels into or from the Long Beach Inner Harbor area. When such events occur, all vehicular traffic over the bridge is delayed for periods which may last as long as an hour in some instances.

At the further hearings on August 5 and 6, 1964, there was no renewal of the complaints or further complaints concerning the quality of applicant's service.

Estimates of applicant's financial results of operation for the year ending with March, 1965, assuming that the proposed fares were in effect throughout the year, were presented and explained by applicant. He also presented similar estimates, assuming that an increase of 5 cents is made in the 20-cent fares, but that present 30-cent fares are retained.

A Commission engineer likewise presented estimates of applicant's financial operating results which he had developed from a study of applicant's books and operations and which were projected on the assumptions that (a) present fares will be continued in effect throughout the year through June, 1965, and (b) that the proposed fares were in effect throughout the same

period. The respective estimates of applicant and the Commission engineer are set forth in Tables Nos. 1 and 2 below:

Table No. 1

Applicant's Estimates of Revenues, Expenses  
and Operating Results Under Proposed Fares  
Year Ending with March, 1965

	<u>Under Proposed Fares (a)</u>	<u>Under Alternative Proposal (b)</u>
Revenues		
Passenger	\$366,250	\$354,359
Charter	2,000	2,000
Other	-	-
Total Revenues	<u>\$368,250</u>	<u>\$356,359</u>
Expenses		
Maintenance	\$ 57,250	\$ 57,250
Transportation	146,800 (c)	146,800 (c)
Advertising	400	400
Insurance	28,000	28,000
Administration	47,875	47,875
Operating Rents	10,100	10,100
Operating Taxes	29,766	29,766
Depreciation	16,220	16,220
Interest Expense	2,589	2,589
Total Expenses	<u>\$339,000</u>	<u>\$339,000</u>
Net Operating Revenues	\$ 29,250	\$ 17,359
Provision for Income Taxes	<u>8,100</u>	<u>3,915</u>
Net Income	\$ 21,150	\$ 13,444
Rate Base	\$117,280	\$117,280
Operating Ratio	94.2%	96.2%
Rate of Return	18.0%	11.5%

- (a) All adult fares increased 5 cents.  
(b) 20-cent fares only, increased 5 cents.  
(c) Includes \$20,200 for bridge tolls listed  
by applicant as part of operating rents.

Table No. 2

Commission Engineer's Estimates of Revenues, Expenses  
and Operating Results Under Present and Proposed Fares  
Year Ending with June, 1965

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Revenues		
Passenger	\$321,530	\$372,820
Charter	2,200	2,200
Other	2,200	2,200
Total Revenues	<u>\$325,930</u>	<u>\$377,220</u>
Expenses		
Maintenance	\$ 50,390	\$ 50,390
Transportation	147,080	147,080
Advertising	430	430
Insurance	26,620	25,990
Administration	32,740	32,740
Operating Rents	9,300	9,300
Operating Taxes	27,780	28,850
Depreciation	13,620	13,620
Total Expenses	<u>\$307,960</u>	<u>\$308,400</u>
Net Operating Revenues	\$ 17,970	\$ 68,820
Provision for Income Taxes	<u>1,200</u>	<u>23,700</u>
Net Income	\$ 16,770	\$ 45,120
Rate Base	\$143,550	\$143,550
Operating Ratio	94.9%	88.0%
Rate of Return	11.7%	31.4%

The Commission engineer concluded from his studies that applicant's earnings for the coming year from present fares will be adequate, and that the proposed fare increases are not justified. He recommended that the application be denied.

Since applicant's position in this matter is that he is confronted with substantial operating losses unless his fares are increased whereas the Commission engineer's view is to the contrary, it is evident that the respective estimates of applicant and of the

engineer should be examined in some detail in order to resolve the principal differences. The estimates which should be so examined are shown below:

	<u>Applicant</u>	<u>Engineer</u>
Revenues (from proposed fares)	\$368,250	\$377,220
Maintenance Expense	57,250	50,390
Insurance Expense	28,000	26,620
Administrative and General Expense	47,875	32,700
Operating Rents	10,100	9,300
Operating Taxes	29,766	27,780
Depreciation	36,220	13,620
Interest Expense	2,589	-

Discussion of these estimates follows:

#### Revenues

The engineer's estimate of revenues was developed from an analysis of applicant's traffic over the past several years. From this analysis, the engineer concluded that the trend of applicant's traffic is upward and his revenue estimates reflect this conclusion. On the other hand, applicant's estimate was developed on the assumption that his traffic for the year through March, 1965, will be at about the same level as that for the previous year.

Although the data which were presented by the Commission engineer indicate that applicant has enjoyed an upward trend in traffic during the past several years, said data largely apply to operations prior to the opening of the Vincent Thomas Bridge. The record shows that the opening of the bridge has had a substantial impact upon the pattern of applicant's traffic. We are not persuaded that the traffic trend that formerly prevailed will continue. We are of the opinion that applicant's estimate is the more reasonable.



Subject to a modification to include allowance for miscellaneous revenues in the amount of \$2,200, applicant's revenue estimates will be adopted.<sup>1</sup>

Maintenance

The principal differences between applicant's and the engineer's estimates for maintenance expense are in the allowances for supervision, repair and servicing of revenue equipment, and tires and tubes expense. With respect to supervision, the engineer included lesser provision for the compensation of applicant's garage foreman than that which applicant actually pays. Applicant's payments to his foreman are in excess of the union wage scale for Class "A" mechanics, whereas the engineer's estimate was based on the union scale. The evidence shows that applicant deems as essential to the adequate maintenance of his buses that his foreman be a skilled mechanic in several distinct areas. We find that the payments which applicant makes for the services of such a man are within the framework of reasonable managerial discretion. Applicant's estimate for compensation for his foreman will be adopted. On the other hand, applicant's estimates for the repairing and servicing of revenue equipment appears to be higher than reasonable if consideration is given to two new buses which were recently placed in

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<sup>1</sup> The record shows that during the year ending with March, 1964, applicant received \$7,867 in miscellaneous revenues. The Commission engineer estimated that during the year through June 30, 1965, applicant would receive \$2,200 in miscellaneous revenues. In view of applicant's past experience it appears that some allowance for miscellaneous revenues should be made and that the engineer's estimate is reasonable.

service. The engineer's estimate will be adopted. We will adopt, as reasonably reflective of applicant's experience, the engineer's estimate for tires and tubes expense.

Upon consideration of the foregoing adjustment to be made in the expense estimates, we find that the amount of \$54,000 is a reasonable estimate for maintenance expense for the year under consideration.

#### Insurance

The engineer's estimate of insurance expense takes into consideration an anticipated adjustment in insurance premiums for public liability insurance whereas applicant's estimate does not. Whether or to what extent such an adjustment will be made is contingent upon applicant's accident experience. However, applicant's past experience indicates that an adjustment may be reasonably expected. The engineer's estimate in this respect will be adopted and applicant's estimate modified accordingly.

#### Administrative and General Expense

Applicant's estimate for administrative and general expense includes an allowance of \$15,000 for his own salary and expenses, an allowance of \$21,400 for salaries of general office employees, an allowance of \$1,200 for law expense, and an allowance of \$3,000 for other general expenses. The corresponding estimates of the engineer are \$11,550, \$11,080, \$600 and \$2,120, respectively.

The lower estimate of the engineer for applicant's own salary and expenses was based in part upon a partial allocation of applicant's salary and expenses to parking lot and service station operations in which applicant is engaged in addition to his bus

business. However, the evidence shows that virtually all of the management of the service station and parking lot is delegated to others, and that applicant himself spends very little time in connection with such operations. We find that the allowance of \$15,000 for applicant's services and expenses is reasonable. It will be adopted.

The estimate of the engineer for salaries of general office employees reflects an allocation of part of the salaries of general office employees to the service station and parking lot operations. We find that an allocation of some of said salaries to the other operations is justified but that the amount allocated should not be as great as that reflected in the engineer's estimate. We adopt an amount of \$14,000 as a reasonable charge against the bus operations for the compensation of the general office employees.

We find that applicant's estimate of \$1,200 for law expense during the year under consideration is reasonable. Said amount will be adopted.

Applicant's estimate of \$3,000 for other general expenses conforms to his recorded expense for this classification for the year 1963. However, in view of the fact that certain of applicant's office functions are performed for the service station and parking lot operations, we find that the engineer's estimate of \$2,120 represents the more reasonable charge against the bus services. Said estimate will be adopted.

Effect being given to the foregoing modifications of the estimates, we adopt an amount of \$39,595 as a reasonable estimate of applicant's administrative and general expense for the year.

Operating Rents

The engineer's estimate of \$9,300 for operating rents was developed on the basis of the building space which is used by applicant in his bus operations. Said estimate will be adopted as reasonable instead of applicant's estimate of \$10,100.

Operating Taxes

The difference between applicant's and the engineer's estimates for operating taxes is due principally to an adjustment which the engineer made to give effect to a recent reduction in the weight fees which are assessed by the Department of Motor Vehicles. Said reduction applies in certain circumstances to bus operations in urban service. The record indicates, however, that applicant is not eligible for this reduction. It appears that applicant's estimate is based on the weight fees that he will have to pay. Said estimate will be adopted.

Depreciation Expense

Applicant's charges for depreciation expense on his buses were calculated on estimated service lives of 10 years. No allowance was made by applicant for any salvage value of the buses at the end of the 10-year period. On the other hand, the engineer's estimate of depreciation expense was developed on estimated service lives of 12 and 14 years and a salvage value of \$3,500 per bus. The salvage value of \$3,500 assertedly reflects recent experience of a bus line in the San Diego area in the disposition of used buses.

Insofar as the service lives of the buses are concerned, it appears that the 10-year lives used by applicant are shorter than the service lives actually realized by applicant in the use

of his buses. On the other hand, it appears that the 14-year lives which were used in part by the engineer do not give adequate weight to unusual strains upon the buses which, the record shows, are incurred in the crossings of the pontoon bridge. It appears, furthermore, that the salvage value of \$3,500 per bus is higher than that which may be reasonably experienced in view of the conditions under which the buses are operated.

On this record we will adopt service lives of 12 years as reasonable lives for the buses. We will adopt as reasonable salvage values those equal to 10 per cent of the cost of the equipment. Adjustment of the depreciation expense, accordingly, results in a figure of \$16,330. A conforming adjustment in rate base results in a figure of \$142,200. We adopt said amounts as reasonable for the purposes of this proceeding.

#### Interest Expense

Interest expense is not classified as an operating expense. The amount of \$2,589 which applicant included for interest expense in his estimate of operating expenses will not be adopted.

Revision of the data in Tables Nos. 1 and 2 above in conformity with our foregoing findings and conclusions results in the revised estimates shown in the following table:

Table No. 3

Estimated Revenues, Expenses and Operating Results (Revised)  
Under Present and Proposed Fares  
Year Ending with June, 1965

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Revenues		
Passenger	\$315,900	\$366,250
Charter	2,200	2,200
Other	2,200	2,200
Total Revenues	<u>\$320,300</u>	<u>\$370,650</u>
Expenses		
Maintenance	\$ 54,000	\$ 54,000
Transportation	146,800	146,800
Advertising	400	400
Insurance	26,450	26,450
Administration	39,595	39,595
Operating Rents	9,300	9,300
Operating Taxes	29,766	29,766
Depreciation	16,333	16,333
Total Expenses	<u>\$322,644</u>	<u>\$322,644</u>
Net Operating Revenues	( <u>\$ 2,344</u> )	\$ 48,006
Provision for Income Taxes	-	<u>\$ 18,827</u>
Net Income	( <u>\$ 2,344</u> )	\$ 29,179
Rate Base	\$142,200	\$142,200
Operating Ratio	100.7%	92.1%
Rate of Return	-	20.5%

           Indicates loss

It is evident from the data in Table No. 3 above that applicant's revenues under his prevailing fares are not sufficient to sustain its services. Clearly, some increases in applicant's fares are warranted.

However, increases as much as 5 cents in all of applicant's fares are not justified. Increases of 5 cents in all fares would result in earnings substantially in excess of those needed to return applicant's operating costs and to compensate applicant reasonably for the services which he provides.

Estimated operating results under applicant's alternative fare proposal, whereby the sought 5-cent increase would be applicable to the 20-cent fares only, are as follows:

Table No. 4

Estimated Revenues, Expenses and Operating Results (Revised)  
Under Alternative Fares  
Year Ending with June, 1965

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Revenues	\$358,759
Expenses	<u>322,644</u>
Net Operating Revenues	\$ 36,115
Provision for Income Taxes	<u>\$ 11,775</u>
Net Income	\$ 24,340
Rate Base	\$142,200
Operating Ratio	93.2%
Rate of Return	17.1%

Although the alternative fares would result in lesser earnings, we are of the opinion that the earnings would still be excessive, and that, on this record, the alternative fares also have not been shown to be justified.

As has been indicated previously herein, applicant's needs for increased revenues stem mainly from increases in his operating costs resulting from the routing of his line over the Vincent Thomas Bridge. A major item of the additional costs is the tolls which the bridge authority collects from applicant at the rate of about 4-1/2 cents per passenger transported over the bridge. Applicant's fare which applies between San Pedro and the west end of Terminal Island is a single-zone fare of 20 cents a ride, the same as applicant's other fares for transportation within one zone. Inasmuch as applicant now pays the toll charges out of the 20-cent fare, the amount that remains to compensate him for his own services is about 15.5 cents per ride.

Were applicant's fares for transportation over the bridge to be increased by 5 cents per ride, the level of applicant's own revenues from his services over the bridge would be raised to about that of the revenues which he receives from his other services. Under such an increase the bridge tolls would be borne by those who travel across the bridge. Estimated operating results under such an increase in fares are set forth in Table No. 5 below:

Table No. 5

Estimated Revenues, Expenses and Operating Results (Revised)  
Under 5-Cent Increase in Fares for  
Transportation over Vincent Thomas Bridge  
Year Ending with June, 1965

Revenues	\$333,366
Expenses	<u>322,644</u>
Net Operating Revenues	\$ 10,722
Provision for Income Taxes	<u>175</u>
Net Income	\$ 10,547
Rate Base	\$142,200
Operating Ratio	96.8%
Rate of Return	7.4%



Upon consideration of the record in this matter we find that the estimates which are set forth in Table No. 5, above, are reasonable estimates for the purposes of prescribing rates for applicant's operations. We find that increases of 5 cents in applicant's adult fares per one-way ride involving transportation over the Vincent Thomas Bridge have been shown to be justified. We find that applicant's operating results under said fare increases (as said results are represented by an operating ratio of 96.8 percent and a rate of return of 7.4 percent) are reasonable. Increases of 5 cents in applicant's adult fares for transportation involving crossing of the Vincent Thomas Bridge will be authorized. In other respects the fare increases which applicant seeks will be denied.

O R D E R

IT IS ORDERED that:

1. Pete Drake, doing business as Terminal Island Transit Company, is authorized to amend his Local Passenger Tariff Cal. P.U.C. No. 8 so as to effect an increase of 5 cents in his intrazone and interzone adult fares per one-way ride for transportation involving crossing of the Vincent Thomas Bridge that lies between San Pedro and Terminal Island. Tariff publications authorized to be made as a result of this order 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 his buses and terminals a printed explanation of his 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.

4. Except as is otherwise provided by this order, Application No. 46625 is hereby denied.

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

Dated at San Francisco, California, this 30<sup>th</sup> day of NOVEMBER, 1964.

Frederick B. Hildebrandt  
President

George E. Grover

Commissioners

*I dissent*  
*Everett [Signature]*

*I accept the staff engineer's recommendation based upon his study that the application should be denied. I would not grant the relief based upon such recommendation as well as applicant's defenses. Strongly.*

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*William Beaudet*