hjh

ORIGINAL

Decision No. 75339

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREYHOUND LINES, INC., WESTERN GREYHOUND LINES DIVISION, for an order authorizing a Statewide increase in express rates and main line passenger fares.

Application No. 50792
(Filed January 2, 1969;
Amended February 14, 1969)

W. L. McCracken, for Greyhound Lines, Inc. (Western Greyhound Lines Division), Las Vegas-Tonopah-Reno Stage Line, Inc., Moyers Stages, Orange Belt Stages, Peerless Stage Lines, Inc., San Pedro Transit Lines, and Vaca Valley Bus Lines, applicants.
Thomas J. O'Connor, City Attorney, by William C. Taylor, and Robert L. Laughead, for the City and County of San Francisco; Louis Possner, for the City of Long Beach; and Dwight L. Herr, for the County of Santa Cruz; interested parties.
William C. Bricca and Leonard L. Snaider, Counsel, and George H. Morrison and A. L. Gieleghem, for the Commission staff.

INTERIM OPINION

Greyhound Lines, Inc., (Greyhound) is a wholly-owned subsidiary of The Greyhound Corporation. Greyhound is engaged, as a passenger stage corporation, in the transportation of passengers, baggage and express generally statewide throughout California. Greyhound also operates throughout the contiguous 48 states and in Canada and Mexico. Western Greyhound Lines (now Greyhound Lines - West) is an operating division of Greyhound, through which Greyhound conducts transportation services in 26 states, including California.

In this application Greyhound seeks to increase its California intrastate mainline passenger fares by 10 percent; no increase is sought in commutation fares or minimum fares. It also seeks to increase its basic express rates by approximately 16 percent, and to make changes in specific express charges and rules resulting in increases. Greyhound is joined with other applicants in a request to increase joint express rates to the same levels as are sought for local service by Greyhound. Greyhound seeks also to increase its joint fares with Vaca Valley Bus Lines between Travis Air Force Base, on the one hand, and San Francisco, San Francisco Airport, Oakland Army Terminal, and Oakland Airport, on the other hand. Greyhound proposes to publish the increased mainline passenger fares by the use of conversion tables, pending reissuance of the several tariffs involved.

Public hearing on the application was held before Commissioner Morrissey and Examiner Mallory on May 26, 27 and 28, 1969. The proceeding was partially submitted on the latter date. The matter was temporarily removed from the calendar and further hearings will be held with respect to issues concerning adjustments to investment for equipment and for services provided to Greyhound by affiliated interests.

Evidence was presented on behalf of Greyhound by the president of Western Greyhound Lines Division of Greyhound Lines, Inc., by the Director of Traffic for said Division, and by the assistant to the comptroller of said Division. Evidence on behalf of the Commission staff was presented by two financial examiners from the Commission's Finance and Accounts Division and three transportation engineers from the Commission's Transportation Division. No other parties introduced evidence. Counsel for the City and County of San Francisco participated in the proceeding through examination of the foregoing witnesses.

Greyhound's Director of Traffic presented an exhibit setting forth in detail the relief sought in the application herein, an explanation of the operations of Greyhound's Western and Central

Divisions, and general background information relating to the present application. His testimony indicated the last increase in passenger mainline fares and express rates authorized to Greyhound became effective November 9, 1968 pursuant to Decision No. 74831 in Application No. 50366. That decision indicated that the increases authorized therein would result in a rate of return of 2.5 percent and an operating ratio (after taxes) of 93.6 percent for Greyhound's total California intrastate operations. The witness stated that such ratios indicate that Greyhound's operations have been conducted in California under depressed rates and fares. He stated that increases in said rates and fares are required to bring them up to a reasonable level, and to reflect increases in costs occurring since said rates and fares were last adjusted.

Applicant's financial witness presented Exhibit 2 containing statements showing results of operations for the twelve months ended October 31, 1968; estimated operating results for the year ended June 30, 1970 at present fares; estimated operating results for the same test year at proposed fares; and investment, depreciation reserves, and rate base as of December 31, 1969. The operating results for the test year do not include wage and welfare increases resulting from the renewal of the Amalgamated Transit Union contract for a period of three years, effective March 1, 1969. The record indicates that such increased labor costs apply both to the mainline operations, for which increases are sought herein, and to commutation operations, for which no increases are sought herein. It was indicated that Greyhound will seek further relief, on an offset basis, to reflect the increases in said wage costs in both mainline and commutation fares subsequent to a decision herein with respect to mainline fares.

The tables set forth in applicant's Exhibit 2 show that in the historical year, applicant's total California intrastate operations were conducted at a loss (after provision for income taxes) of $699,600, as represented by an operating ratio of 101.5 percent. For the test year at present fares, applicant's witness estimated that total California intrastate operations will be conducted at a net profit (after provision for income taxes) of $545,600, as represented by an operating ratio of 98.9 percent. For the test year at proposed fares, the witness estimated that total California intrastate operations will be conducted at a net profit (after provision for income taxes) of $1,935,300, resulting in rate of return of 6.5 percent and an operating ratio (after taxes) of 96.2 percent.

A financial examiner from the Commission staff presented in evidence Exhibit 6, a study on the cost of money and rate of return for Greyhound's California intrastate operations. It was this witness's conclusion that a rate of return of 7 percent for Greyhound's total California intrastate operations would not be unreasonable.[1/] The witness indicated that said rate of return is at the lower end of a reasonable range for the operations here under consideration. It was the witness's opinion that the request herein for a rate of return of 7 percent, as stated in the application, precluded him from recommending a range of reasonable rates of return which would have included an upper limit. Applicant presented no rebuttal testimony to this presentation.

1/ The 7 percent intrastate rate of return incorporates cost factors of 8.17 percent for common stock equity and 4.99 percent for long-term obligations.

A financial examiner and a transportation engineer presented in evidence Exhibit 4, which is a study of Greyhound's affiliated companies. This exhibit shows that certain of the newer busses (MCI series) operated by Greyhound were manufactured by affiliated companies and were purchased from said affiliates by Greyhound.[2/] The staff financial examiner proposed that an adjustment be made to Greyhound's recorded operating property accounts to reflect a reduction in the profit of said affiliates. The exhibit describes in detail the rationale used by this Commission in making similar adjustments to the operating properties of other utilities which purchase materials and services from affiliates. The witness developed alternate adjustments for consideration of the Commission. An adjustment to a 7 percent rate of return on average net plant investment for these affiliates was calculated, based on the rationale adopted by the Commission in making the so-called "Western Electric" adjustment in Pacific Telephone Company, Decision No. 74917, dated November 6, 1968, in Application No. 49142. An alternative adjustment to a 12 percent rate of return on net plant investment for the MCI companies was also calculated, based, in part, on the rationale set forth in the Proposed Report of the Presiding Commissioner and Examiner, dated April 15, 1969, in General Telephone Company of California, Application No. 49835.[3/] This witness made no recommendation as to the adoption of either alternate.

2/ Said affiliates are Motor Coach Industries, Limited (Winnipeg, Canada), a wholly owned subsidiary of Greyhound Lines of Canada Ltd., which in turn is approximately 62 percent owned by Greyhound Lines, Inc.; and Motor Coach Industries, Inc. (Pembina, North Dakota), a wholly owned subsidiary of The Greyhound Corporation. MCI, Ltd. supplies bus body shells to MCI, Inc. Practically all of MCI, Inc. production of busses is sold to Greyhound Lines, Inc. for use throughout the United States.

3/ Following submission of the application herein, Decision No. 75873 dated July 1, 1969 was issued, which substantially adopted the Proposed Report. Said decision and Proposed Report made adjustments to reflect a 12 percent return on stockholders' equity, rather than on average net plant investment.

The transportation engineer testifying to Exhibit 4 presented recommendations and conclusions with respect to his analysis of the operations of General Fire and Casualty Company, a wholly owned subsidiary of The Greyhound Corporation. The witness proposed that an adjustment be made to reduce insurance expense recorded on the books of Western Greyhound Lines Division in the amount of $237,700 for 1968, to reflect reductions in premiums paid by that Division to General Fire and Casualty Company. The witness also analyzed administrative and advertising expense allocations from The Greyhound Corporation to Greyhound's Western Division, and concluded that no adjustment should be made therein. The report in Exhibit 4 also contains other analyses and conclusions which need not be discussed in detail in this interim opinion.

No evidence relating to "affiliated interests" adjustments has been presented by any party in prior fare or rate applications of Greyhound.[4/] The president of Western Greyhound Lines testified that although Greyhound knew that such staff studies were in progress, the company had no knowledge of the magnitude of the adjustments which could result therefrom. The witness stated that Greyhound intends to make in-depth studies of this subject, which will require several months to complete. The witness testified that Greyhound is in immediate need of additional revenues, and does not desire to delay the conclusion of the proceeding until the "affiliated interests" issue is fully litigated. The witness requested that an interim order be issued, so that some relief could be accorded to Greyhound. Greyhound will not contest "affiliated interests"

4/ It was indicated on the record in the proceeding leading to Decision No. 69539 (64 Cal. P.U.C. 641) that the Commission staff intended to make studies looking to "affiliated interests" adjustments.

adjustments in the interim phase of the proceeding, but would accept the staff adjustments without conceding their merits. It was agreed to submit the proceeding for an interim order to provide for Greyhound's immediate revenue needs, and to postpone further hearings with respect to "affiliated interests" adjustments until Greyhound has completed its studies and all parties are ready to proceed.

Exhibit 5 (as amended by Exhibit 7) is a report on Greyhound's request for fare and rate increases, which was jointly prepared by a financial examiner and two transportation engineers of the Commission's staff. The exhibit contains financial and accounting data relating to an historical period; studies of operations, service and passenger trends; and results of operation for an historical period and for a future year. The actual results of Greyhound's total California intrastate operations for the year ended October 31, 1968, as set forth in Exhibit 5, show that Greyhound incurred a net operating loss (after provision for income taxes) of $871,000, as represented by an operating ratio of 101.9 percent. No "affiliated interests" adjustments for busses were made for this historical period.

Exhibits 5 and 7 also contain estimates of operating results for the year ending June 30, 1970, under present and proposed fares. The estimates for a future year reflect adjustments to rate base to provide a reduction in original costs of MCI busses, based on rates of return on average net plant investment to MCI, Inc. and to MCI, Ltd. of 7 percent on busses purchased by Greyhound. The test year estimate of operating results under present fares indicates that total California intrastate operations would be conducted at a loss. The following table depicts the staff engineer's estimates of operating results at proposed fares and express rates, excluding cost increases resulting from wage contracts effective March 1, 1969, derived from data in Exhibits 5 and 7, and revisions thereto.

TABLE 1

Greyhound Lines, Inc.
(Western Greyhound Lines Division)
Estimates of Operating Results
Under Proposed Fares and Express Rates
For Year Ended June 30, 1970
(Amounts in Thousands)

	California Intrastate		
	Total	Main Line	Local
Revenues	$52,938	$40,628	$12,310
Expenses	48,898	35,008	13,890
Operating Income	4,040	5,620	(1,580)
Income Taxes	1,712	2,382	(670)
Net Income	2,328	3,238	(910)
Operating Ratio (%)	95.6	92.0	107.4
Rate Base	28,639	23,910	4,729
Rate of Return (%)	8.1	13.5	--

( ) = Red Figure

The staff engineer also introduced Exhibit 11 (late-filed) showing a method of increasing fares which would produce revenues resulting in a rate of return of 7 percent for Greyhound's total California intrastate operations.

Discussion

The record shows that the historical year results of operation, as set forth in exhibits of applicant and the Commission staff, were developed by using the separations and allocation procedures adopted in a prior proceeding.[5/] The parties agreed that

5/ Exhibit 78 in Applications Nos. 40057 and 40036 (Decision No. 62959, 59 Cal. P.U.C. 213, 215), and Exhibit 41 in Application No. 49658 (Decision No. 74519, unreported).

the differences between the applicant and staff operating results for the historical year are minor and need not be resolved on this record. The record shows, however, that the current allocation procedures require modification because of the consolidation of the Western and Central Divisions into the Western Division, effective January 1, 1969. The Commission staff and Greyhound are directed to make the studies necessary to bring the allocation procedures up-to-date and to advise the Commission when such studies are completed so that a proceeding may be instituted looking to the adoption of revised allocation procedures.

The record also shows that the test year estimates of applicant and the staff are largely premised upon the same supporting data.[6/] The principal difference between the staff exhibits and those of applicant result from the "affiliated interests" adjustments. In order to expedite the request for an immediate increase, Greyhound agreed that such adjustments may be used for the purposes of this interim decision. However, Greyhound pointed out that the adjustment for busses as used in the staff engineer's test year operating results was predicated upon a different method than was used by the financial examiner in his study. This difference in method stems from the different approach used by each witness. The financial examiner used as a basis for his two alternate adjustments, sales prices and costs applicable to all MCI busses purchased by Greyhound Lines, Inc., and developed adjustments per bus, by years, and in total for the six-year historical period applicable to busses assigned to Greyhound's Western-Central Division.

6/ The record shows that representatives of applicant and the staff worked closely together in the development of the underlying data from which test year operating results were derived. The differences in the exhibits were discussed at the Prehearing Conference held May 21, 1969, and, except for those mentioned above, were resolved prior to or at the hearings.

In contrast, the staff engineer limited his calculations to a 7 percent return, and using the same data developed by the financial examiner, developed a percentage reduction of bus purchase cost applicable to all busses purchased assigned to Western-Central Division. Since this method considered and utilized, in total, the number of busses, their purchase price and adjusted purchase price applicable to Greyhound Lines, Inc., the resulting flat percentage adjustment uniformly applied to all purchases for Western-Central Division for all years gives no weight to either fluctuating earnings of the affiliates or to the number of busses purchased for assignment to Western-Central Division in years of substantially differing affiliated earnings.[7/]

The staff engineer developed his proposal on the assumption that at one time or another all the busses owned by Greyhound could be operated in the Western-Central Division. While this is so, the operation in the Western Division of busses assigned to other divisions is relatively small, and has relatively little impact on operating results. Moreover, in developing rate base figures (other than for the MCI price adjustment) only busses assigned to the Western-Central Division were used by the engineer. It appears that to be consistent with other data used in developing test year rate base and operating results, the MCI adjustment should be based on busses assigned to the Western-Central Division. For the purposes of this proceeding the method of adjustment set forth in the financial examiner's report appears to be more appropriate and will be adopted.

7/ The record shows that the financial examiner adjusted actual prices for Western-Central purchases downward by 11.33 percent at a 7 percent rate of return. The engineer adjusted prices downward by 14 percent. The total purchase price of MCI busses is $25,995,242. The reduction in rate base (for the Western-Central Division group of busses) utilizing the method advocated by the financial examiner is $2,947,861; and by the engineer is $3,639,000.

Other suggested changes to the staff report, as urged by Greyhound, involve an addition to rate base of $68,000 for the cost of franchises, and the elimination of an increase in miscellaneous station revenues. The amount of $68,000 for franchises was determined to be appropriate in Decision No. 62959 (59 Cal. P.U.C. 213), and should be included in rate base. The staff engineer in Exhibit 5, estimated that miscellaneous station revenues would be $44,000 less in the test year than in the historical year, because of reductions in passenger traffic. In Exhibit 7, the estimate was revised to reflect a 10 percent increase in miscellaneous station revenues, based on the assumption that such revenues would be increased in proportion to the increase in fares sought herein. The record shows that some of the sources of revenues included in this generic grouping are subject to contracts which may not be susceptible to revision in the test year, and other sources of revenue are related directly to passenger traffic which will decrease in the test year. For the purposes of this proceeding, it is reasonable to assume that miscellaneous station revenues will be at the same level in the test year as in the historical year.

The following table depicts the staff's estimated results of operations under fares and rates proposed herein (as set forth in Table 1), modified to reflect the changes adopted above.

TABLE 2

Greyhound Lines, Inc.
(Western Greyhound Lines Division)
Revised Estimates of Operating Results
Under Proposed Fares and Express Rates
For Year Ended June 30, 1970
(Amounts in Thousands)

	California Intrastate		
	Total	Main Line	Local
Revenues	$52,862	$40,539	$12,323
Expenses	48,942	35,049	13,893
Operating Income	3,920	5,490	(1,570)
Income Taxes	1,671	2,341	(670)
Net Income	2,249	3,149	(900)
Operating Ratio (%)	95.7	92.2	107.3
Rate Base	28,976	24,228	4,748
Rate of Return (%)	7.8	13.0	--

( ) = Red Figure

Findings and Conclusions:

The Commission finds as follows:

1. Greyhound Lines, Inc., (Western Greyhound Lines Division) seeks authority to increase its California intrastate mainline passenger fares, local and joint express rates, and joint fares with Vaca Valley Bus Lines for service to Travis Air Force Base.

2. Greyhound's total California intrastate passenger and express operations were conducted at a loss in the year ended October 31, 1968, and estimates developed by Greyhound and the Commission staff show that said operations will be conducted at a profit of at least $545,600 which would result in a rate of return of 1.8 percent and an operating ratio of 98.9 percent in the year ending June 30, 1970, under present fares and express rates.

3. Greyhound is in need of an immediate increase in revenues for its California intrastate operations.

4. Test-year operating results developed by the Commission staff contain adjustments which reduce the cost of busses purchased from affiliated bus manufacturing companies. This type of adjustment has not been made by this Commission in deciding prior fare applications of Greyhound. The adjustments proposed by the staff should be adopted as reasonable for the purpose of an interim decision herein, without prejudice to other or different findings or conclusions after further hearing and receipt of additional evidence.

5. A rate of return of 7 percent and an operating ratio of approximately 96.0 percent (after taxes) will not be unreasonable for Greyhound's total California intrastate operations for the purposes of determining Greyhound's revenue needs in the interim phase of this proceeding.

6. Table 2, contained in the preceding opinion, reasonably represents estimates of Greyhound's California intrastate results of operations under fares and express rates proposed in the application, for the year ending June 30, 1970. California intrastate operating results, as shown in Table 2, do not contain a provision for increased wages and fringe benefits applicable under driver wage contracts effective March 1, 1969.

7. Table 2 indicates that Greyhound's operations under proposed fares and express rates will result in a rate of return of 7.8 percent, and an operating ratio of 95.7 percent, which are in excess of those found not unreasonable in Finding 5 hereof. To the extent that the proposed increased fares and express rates produce a rate of return and an operating ratio in excess of those found reasonable in Finding 5, such fares and express rates have not been shown to be justified.

8. Increased fares and express rates, as set forth in the order herein, will produce a rate of return of approximately 7 percent and an operating ratio of approximately 96.1 percent. Said increased fares and express rates will be reasonable and are justified as interim fares and express rates.

The Commission concludes:

1. Increased fares and express rates, as set forth in the order which follows, should be authorized as interim fares and express rates. (The mainline fares result in an increase of 8.02 percent, and the express rates are those set forth in the application. No increase is provided in the Travis Air Force Base fares, inasmuch as those fares are based on rates above the system scale and military operations produce the most favorable rate of return and operating ratio of any segment of California intrastate operations.)

2. Further hearings in this application should be scheduled for the receipt of additional evidence concerning the so-called "affiliated interests" adjustments proposed herein, and a reasonable rate of return applicable to final rates.

3. This matter should be placed on the calendar when Greyhound and the Commission staff have advised the Commission they are ready to proceed.

INTERIM ORDER

IT IS ORDERED that:

1. Greyhound Lines, Inc. (Western Greyhound Lines Division) is hereby authorized to establish the following mainline passenger fares:

(a) ONE-WAY DISTANCE FARES

Miles		Rate Per Mile	With No Fare
Over	But Not Over	(in cents)	Less Than Fare For:
0	25	4.00	Minimum Fare
25	50	3.74	25 Miles
50	100	3.53	50 Miles
100	150	3.21	100 Miles
150	200	3.08	150 Miles
200	250	3.00	200 Miles
250	300	2.94	250 Miles
300	400	2.87	300 Miles
400	-	2.81	400 Miles

Minimum Fare . . . . 35 cents

Round-trip Fare . . . . 180% of one-way fare

(b) Except as otherwise provided, any increased one-way fares resulting in amounts less than 60 cents and not ending in "0" or "5" cents and any increased round-trip fares resulting in amounts less than $1.10 and not ending in "0" or "5" cents may be further increased to the next higher amount ending in "0" or "5" cents, as the case may be. Any increase in one-way fares resulting in amounts greater than 60 cents and any increased round-trip fares resulting in amounts greater than $1.10 shall be rounded to the nearest cent, one-half being considered nearest to the next higher cent.

2. Pending establishment of the specific fares authorized in paragraph 1 hereof, applicant is authorized to make effective increases in said passenger fares by means of appropriate conversion tables, provided that said increased fares do not exceed the fares authorized in paragraph 1 hereof.

3. Applicant is authorized to construct fares between mainline and branch line points as requested in the application.

4. Greyhound Lines, Inc. and carriers named in the amended application herein, are authorized to increase express rates as proposed in the application and amendment.

5. The tariff publications authorized to be made as a result of the order herein may be made effective not earlier than one day after the effective date of this order on not less than one day's notice to the Commission and the public.

A. 50792 hjh * *

6. The authority granted herein shall expire unless exercised within ninety days after the effective date of this order.

7. In addition to the required posting and filing of tariffs, applicant shall give notice to the public of the fare increases established pursuant to the order herein by the posting of a printed explanation of its fares in its busses and terminals. 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 six days after the date hereof.

Dated at San Francisco, California, this 22nd day of JULY, 1969.

William Symons Jr.
President

Commissioners

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.