

jmd

ORIGINAL

Decision No. 78972

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE GRAY LINE TOURS COMPANY for)
Authority to Increase Rates for)
Passenger Fares for its Services)
Covered by Local Passenger Tariffs,)
California Public Utilities Com-)
mission Numbers 21 and 22.)

Application No. 52573
(Filed April 22, 1971)

Bruce R. Geernaert, Attorney at Law, for
applicant.
Janice E. Kerr, Attorney at Law, for the
Commission staff.

SECOND INTERIM OPINION

By this application The Gray Line Tours Company, a corporation, seeks authority to increase fares by various amounts which will yield an increase in gross revenues of approximately 35 percent. In the application it requested, pending hearing and consideration by the Commission of said authority, that it be authorized to establish on an interim basis increases in fares which would increase revenues by 19 percent. By Decision No. 78734, dated May 25, 1971, the Commission by interim order authorized applicant to establish increases in sightseeing fares and race track fares of 12 percent. On May 28, 1971, applicant filed Petition for Modification of Decision No. 78734 asserting that patronage of sightseeing tours had declined much more abruptly than had been anticipated by applicant at the time of filing its application and considered by the Commission in its Decision No. 78734. In said petition applicant requested further increase in the fares of two of its sightseeing tours, namely, Tour No. 2, Hollywood and Beverly Hills, and Tour No. 5, Hollywood and Movie Studios. On July 7, 1971, applicant filed an amendment to said petition stating that passenger counts on its sightseeing services during June declined substantially below the percentage declines

experienced up to the time of the filing of the application and up to the time of the filing of its petition. It requested the Commission to grant interim fare increases in the amounts that the Commission deems appropriate from the facts and circumstances within the scope of the 35 percent increase in fares sought in the application.

City of Los Angeles, in a written statement signed by its Chief Engineer and General Manager, Department of Public Utilities and Transportation, opposes the additional interim increases sought in petition filed May 28, 1971, and states that if the Commission should find that applicant requires additional revenue it would be more equitable to spread such increase over the entire operations of applicant rather than just on the two most popular tours in Los Angeles which account for 38 percent of the total sightseeing patronage of applicant.

Public hearing on the interim authority requested by applicant was held July 13, 1971, before Examiner Thompson at San Francisco. Evidence was presented by the applicant and by the Commission staff.

The differences between the applicant and the staff concern two issues: the effect of the decline in sightseeing patronage and the manner in which increases should be spread over the fare structure if further increases are necessary to meet applicant's revenue requirements.^{1/} The urgency of the situation arises because applicant's operations are seasonal. Over 55 percent of applicant's sightseeing passengers are transported during the months of June through September.

Counts of sightseeing passengers for each month from January, 1967, through June, 1971, are in evidence. Analysis of the passenger counts discloses a pattern of applicant's sightseeing patronage. Over

^{1/} Representatives of applicant met with members of the Commission staff on numerous occasions between the filing of the application and the date of hearing. Counsel for applicant stated that for the purpose of expediting the proceeding with respect to its petition for interim increases it conceded all issues regarding expense items.

50 percent of the passengers are transported during the summer. While there are differences caused by the number of weekends during a month and the dates of holidays, in general for the years 1967 through 1970 there has been a relationship between the number of passengers transported in one month with the number of passengers transported in a preceding or succeeding month. For example, in each of those years approximately 38 percent of applicant's annual sightseeing traffic was transported during the first six months of the year. From 1967 the trend of patronage has been one of declining traffic. If the passenger counts for the summers of 1969 and 1970 are eliminated from consideration, the decline in passengers has been at a steady rate. During the summer of 1969 applicant had unusually low passenger counts, but the patronage during the summer of 1970 was greater than would have been anticipated from the secular trend in traffic.

Passenger counts for the first six months of 1971 show a decline in traffic much greater than the secular trend. Comparisons of the monthly passenger counts for the first six months of the years 1967 through 1971 are shown in Table 1, below.

TABLE I

	<u>Sightseeing Passengers Per Month</u>				
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
January	16,964	14,782	14,019	13,100	14,145
February	17,914	17,785	16,221	15,155	12,732
March *	21,302	18,973	16,691	20,728	15,575
April *	18,111	20,941	21,071	18,473	19,227
May	22,279	22,069	22,325	22,490	18,379
June	39,880	40,927	37,225	39,206	31,593
	<u>136,450</u>	<u>135,477</u>	<u>127,552</u>	<u>129,152</u>	<u>111,651</u>

* The date of Easter has an effect upon the passenger counts. For comparison purposes the counts of March and April should be combined.

As may be seen, commencing in February of this year there was an accelerated decline in patronage which has continued through June. Applicant's vice-president testified that he reviewed the passenger counts for the first twelve days in July, and the total count was 28.3 percent lower than the count for the first twelve days in July in 1970. He attributes the sudden acceleration in the decline of patronage to publicity regarding the earthquake that occurred in Los Angeles in February and the aftershocks. He anticipates that the decline in patronage during July and August will be about 25 percent from last summer and that hopefully such decline will start to lessen in September. Because of the decline during the peak season, he estimates that the patronage for the full year will be something more than 20 percent lower than the 1970 experience. He considers that to be a very conservative estimate and thinks that it is very possible that the total decline may be as much as 30 percent off of the 1970 patronage.

A senior transportation engineer of the Commission staff presented his estimates of the results of operations of applicant for a future rate year. Such estimates consider only an 8.25 percent decline in sightseeing patronage from 1970 for the 12 months ending June, 1972. The passenger estimate was derived by projecting the twelve-month moving totals of passengers transported each month from January, 1967 through June, 1971. Such procedure gives effect only to the secular trend and, in essence, treats the sudden acceleration in the decline in traffic that commenced in February as a normal cyclical variation.

Sightseeing is a type of service that is dependent to a great extent upon the luxury dollar. Because sightseeing tours are discretionary on the part of the passenger rather than a necessity, the tour business is greatly affected by a number of external factors, including the general economic climate. Forecasting the number of sightseeing passengers for a future year, therefore, is an uncertain business. The evidence shows that the sudden downturn in patronage

that commenced in February is not a normal cyclical movement. From the evidence, we are unable to relate it to a sudden decline in the economic climate. The downturn has persisted up to the date of hearing. Copies of articles appearing in newspapers published in New York and Maryland in April, 1971 were presented by applicant. Those articles would lead readers to believe that California is in imminent danger of further earthquakes.^{2/} Such evidence, together with the fact that the sudden downturn in patronage was coincident with the occurrence of the earthquake, supports applicant's theory regarding the reason for the sudden acceleration in the decline of traffic. We accept it.

While the most current passenger counts disclose a rate of decline in traffic of over 25 percent, with the passage of time the newspaper publicity regarding earthquakes in Southern California should diminish and, thereby, reduce or eliminate the cause of the accelerated decline in traffic. Applicant's estimate of a composite decline in traffic of 20 percent for a rate year is reasonable, keeping in mind that one-half of the summer peak traffic has already experienced a decline in excess of 25 percent.

Applicant presented a number of fare structures which it estimates will provide increases in sightseeing revenues of 7 percent, 15 percent, and 21 percent over the revenues anticipated from the increased (12%) fares authorized by Decision No. 78734. Those fare structures provide increases in fares of various percentages. Applicant desires to maintain sightseeing fares in multiples of 25 cents and, also, to correct or lessen present distortions in fares. The proposed fare structure which is estimated to provide a 7 percent increase in revenues will be utilized to describe those distortions.^{3/}

^{2/} Headlines of the articles included, "Millions on Coast Ignore Peril of a Cataclysmic Quake" and "Aftershocks Jolt Californians. Earthquakes Leave Many Jittery".

^{3/} The tours, the number of hours for each tour, and the present interim fares for each tour are set forth in Appendix A, attached hereto.

The fares for tours out of San Diego are substantially lower in terms of cost per hour than those out of Los Angeles. The four-hour Los Angeles City Tour (No. 8) has a fare of \$6.25, whereas the four-hour San Diego City Tour (No. C) has a fare of \$5.00. Applicant proposes to lessen the difference in fares by increasing the Los Angeles Tour by 50 cents and increasing the San Diego Tour by \$1.00. The fare for an eight-hour tour from Los Angeles to San Diego, San Juan Capistrano and La Jolla is \$13.75, whereas the fare for a twelve-hour tour from San Diego to Disneyland, Hollywood and Beverly Hills is \$9.75. Applicant proposes not to increase the fare for the tour from Los Angeles and to increase the fare for the tour from San Diego by \$2.50. As has been mentioned, the fare for the four-hour City of San Diego Tour No. C is \$5.00, whereas the fare for the seven-hour Bullfight Tour (No. B) is \$5.00. Applicant proposes to increase the fare for Tour B to \$8.00 and the fare for Tour C to \$6.00.

Staff contends that if further increases are required, said increases should be spread over the present rate structure uniformly. As heretofore stated, the City of Los Angeles opposed applicant's prior proposal to obtain additional revenues from increasing only the two popular tours in Los Angeles. The latter is no longer advocated by applicant. The present fare structure of applicant is distorted. The application of a uniform increase over the entire fare structure will not only perpetuate the distortions but will increase them.

We have considered all of the fare structures presented by applicant and its estimates of the results of operations under those fare structures. We are of the opinion that the fare structure labeled by applicant "+7%", except that the fares for Tours Nos. 2S (Deluxe Studio Tour) and 3 (Lion Country Safari) should remain at the present interim fares of \$11.25, will provide applicant with additional revenues, together with the additional revenues from an 8 percent (including the interim 12 percent) increase in race track fares, sufficient to cover operating expenses. Applicant's estimates of the results of operations, assuming a 20 percent decline in sightseeing patronage, under the present interim fares and under the fare structure intended to yield an additional increase in revenues of 7 percent are set forth in Table II below.

TABLE II

Summary of Estimated Revenues and Expenses for
a Rate Year Under Present Interim Fares and
Under Fares Anticipated to Yield Seven Percent
Additional Revenues

	<u>1970 Actual</u>	<u>Present Interim</u>	<u>Additional 7 Percent</u>
<u>No. Passengers</u>			
Sightseeing	337,800	270,200 (1)	263,500 (2)
Race Track	49,400	47,900 (3)	46,900 (4)
<u>Operating Revenue</u>			
Sightseeing	\$1,953,500	\$1,748,200	\$1,823,400
Add-ons (5)	982,800	786,300	766,800
Race Track	194,700	197,300	206,800
Limousine	40,500	45,000	45,000
Charter	321,300	321,300	321,300
Tournament of Roses	16,400	35,200	35,200
Miscellaneous	8,900	10,000	10,000
Total Revenue	\$3,518,100	\$3,143,300	\$3,208,500
<u>Total Operating Expenses</u>	<u>3,419,700</u>	<u>3,182,800</u>	<u>3,173,500</u>
<u>Operating Income</u>	\$ 98,400	\$ (39,500)	\$ 35,000

(Red Figure)

- (1) 20 percent fewer passengers than 1970.
- (2) Estimate considers 20 percent decline plus 2.5 percent diminution as result of the increase in fares.
- (3) 3 percent diminution resulting from 12 percent fare increase.
- (4) 5 percent diminution from 1970 actual resulting from 20 percent overall increase in race track fares.
- (5) Add-on revenue is derived from collection from passenger of admission fees to places of interest on the tour. Applicant used the ratios experienced in 1970 for forecasting revenues and expenses related to add-ons. The ratios are: \$2.91 revenue per passenger and \$2.55 expense per passenger. This item accounts for the lesser expense estimated under further increased fares as compared to the expense under present interim fares.

We are of the opinion that the estimates in Table II are reasonable estimates of revenues and expenses. The maintenance of the present fares for Tours Nos. 2S and 3 would provide at maximum additional revenue of about \$6,000. On the basis of the evidence in this record we estimate that the fares which will be authorized herein will provide applicant with an operating income of \$40,000.

Applicant asserts that it requires operating income of at least \$140,500 in order to pay the principal and interest on its equipment obligations. Payments on principal amount to \$216,700 and on interest \$60,000. Depreciation expense contributes only \$136,200 to its cash available for said obligations. An operating income of \$40,000 will leave applicant \$100,000 short of the capital necessary to meet its financial requirements on its equipment.

The estimates of operating results under the fares that will be authorized herein contemplate applicant transporting 22.5 percent fewer sightseeing passengers than were transported during 1970. This downturn in traffic has been attributed to publicity regarding the February earthquake and is considered by applicant to be temporary. Applicant's request for the establishment of permanent fares is pending, the issue herein concerns the establishment of interim fares which will enable applicant to survive this temporary crisis pending the establishment of a permanent fare structure. In such circumstances the establishment of interim fares which will enable applicant a reasonable opportunity to recover revenues slightly in excess of its operating expenses is all that is justified.

We find that:

1. Since February 1971 applicant has experienced a sudden and drastic decline in sightseeing patronage and such decline has accelerated.
2. The interim fares authorized in Decision No. 78734 will not provide revenues sufficient to recover operating expenses.

3. The drastic decline in sightseeing passengers appears to be temporary although it cannot be ascertained at this time when such condition will be alleviated.

4. Application No. 52573 for authority to establish increased sightseeing fares and race track fares is pending.

5. The present sightseeing fare structure contains a number of distortions that are not justified.

6. The increased sightseeing fares which will be authorized herein, and which are set forth in Appendix A attached hereto, will alleviate many of the distortions in the present fare structure and the increases are justified.

7. The increased race track fares proposed by applicant in Application No. 52573 as interim fares, and which are set forth on pages 3 and 4 of Exhibit A to said application, have been justified.

8. Under the increased fares which will be authorized herein applicant will have reasonable opportunity to recover \$40,000 in excess of reasonable operating expenses and said results are not excessive.

9. Applicant has stated that it will, if ordered, furnish the Commission each month with the counts of sightseeing passengers pending hearing on its application. Said report will enable the Commission and its staff to maintain current information regarding the trend of applicant's sightseeing traffic and to take prompt action if changes in said trend warrant or necessitate further adjustments in the fare structure.

10. The sudden and accelerating decline in applicant's sightseeing traffic has had a substantial effect upon the financial condition of applicant and immediate relief in the form of the interim increases in fares which will be authorized herein is necessary.

We conclude that:

1. Applicant should be authorized to establish the increased fares set forth in the ensuing order on not less than five days' notice to the Commission and to the public.
2. Applicant should be ordered to report to the Commission, commencing ten days after the effective date of this order and by the fifteenth of the month thereafter, the counts of sightseeing passengers transported the preceding month on each tour.
3. The effective date of the order herein should be the date hereof.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. The Gray Line Tours Company, a corporation, is authorized to establish the increased race track fares set forth in pages 3 and 4 of Exhibit A to Application No. 52573.
2. The Gray Line Tours Company, a corporation, is authorized to establish the increased sightseeing fares set forth in Appendix A attached hereto and designated therein as authorized fares.
3. Tariff publications authorized as a result of the order herein shall be filed not earlier than the effective date of this order and 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.
4. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.
5. The authority herein granted is subject to the express condition that applicant will never urge before the Commission in any proceeding brought under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular fare; and that it will never urge before the Commission in any other

proceeding that the opinion and order herein constitute any authority to change or modify any of its tours, tour routes or tour designations; and that the filing of fares pursuant to the authority herein granted constitutes an acceptance and consent by applicant of said conditions.

6. Commencing ten days after the effective date of this order, and by the fifteenth day of each month thereafter, applicant shall file with the Commission a report setting forth the number of passengers it transported on each of its sightseeing tours during the preceding month.

The effective date of this order shall be the date hereof

Dated at San Francisco, California, this 27th day of July, 1971.

William L. Sturgeon Chairman
[Signature]
[Signature]
[Signature]

Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

The Gray Line Tours Company

Tour No.	Description of Tour	Hours	Present	Author-	1970 Passengers	
			Interim Fare	ized Fare	Number	Percent
1	Pasadena	4	\$ 5.25	\$ 5.75	876	.3%
2	Hollywood-Beverly Hills	4	5.25	5.75	73,452	21.8
2S	Deluxe Studio Tour	8	11.25	11.25	31,032	9.2
3	Lion Country Safari	8	11.25	11.25	47	-
5	Hollywood & Movie Studios	4	6.25	6.75	56,830	16.8
6	Forest Lawn Memorial Park	4	5.25	5.75	2,636	.8
7	Santa Barbara, Franciscan Mission, Ojai Valley	8	11.75	12.75	2,262	.7
8	Los Angeles City Tour	4	6.25	6.75	7,218	2.1
9	Los Angeles-Hollywood Evening Tour	4 $\frac{1}{2}$	6.25	6.75	13,205	3.9
10	Beverly Hills-Los Angeles Day Tour	2 $\frac{1}{2}$	4.00	4.25	8,105	2.4
11	San Diego, San Juan Capistrano, La Jolla	8	13.75	13.75	4,347	1.3
15	Disneyland - Half Day	4	6.00	6.75	15,275	4.5
16	Night Life Party Tour	6	7.25	8.00	5,340	1.6
17	Disneyland - All Day	8	10.50	10.50	30,000	8.9
18	Disneyland - All Day	8	10.50	10.50	19,407	5.8
19	Knott's Berry Farm, MovieLand Wax Museum	4	6.00	6.75	6,903	2.0
20	Marineland of the Pacific	4	6.25	6.75	20,335	6.0
21	Disneyland by Night	4	6.00	6.75	2,440	.7
	Total Los Angeles Area				299,710	88.8
<u>San Diego Tours</u>						
B	Bullfight Tour	7	5.00	8.00	873	.3
C	City of San Diego	4	5.00	6.00	8,290	2.4
D	Disneyland, Hollywood, Beverly Hills	12	9.75	13.25	1,031	.3
L	LaJolla	4	5.25	6.00	350	.1
N	Tijuana Night Life Tour	5	5.00	6.00	1,286	.4
S	City and Sea World	4	5.00	6.00	1,594	.5
T	Tijuana Shopping Tour	4	5.00	6.00	10,489	3.1
U	Universal Studios, Hollywood, Beverly Hills	12	9.75	13.25	801	.2
Z	City and Zoo	4	5.00	6.00	2,498	.7
	Total San Diego Area				27,212	8.0
Other Tours			NO CHANGE		10,919	3.2
					337,841	100.0