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ORIGINAL

Decision No. 80421

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of AIRPORTRANSIT OF CALIFORNIA, a corporation doing business as AIRPORTER, for authority to increase its fares as a passenger stage corporation.

Application No. 52828
(Filed August 26, 1971;
Amended April 25, 1972)

Arlo D. Poe and Ivan McWhinney, Attorneys at Law, for applicant.
Scott K. Carter, Attorney at Law, and Robert E. Bouchet, for the Commission staff.

O P I N I O N

This is an application by Airportransit of California, a corporation doing business under the name of Airporter, (hereinafter referred to as Airportransit) seeking an increase in its fares on routes to the San Francisco International Airport and San Jose Municipal Airport.

A duly noticed hearing was held in this matter before Examiner Jarvis in San Francisco on April 25 and 27, 1972, and it was submitted on the latter date.

At the hearing, Airportransit sought, and was granted, leave to amend the application. The amendment seeks a different, and lesser, increase in fares than that requested in the original application. It should also be noted that at the hearing Airportransit presented an Income and Expense Statement based on the twelve months ending December 31, 1971. This information was received by the Commission staff the day before the hearing. The similar information previously furnished the staff was for a period of twelve months ending August 31, 1971. Thus, various exhibits presented by Airportransit and the staff do not deal with identical periods of time.

The material issues presented in this proceeding are: 1. Is Airportransit entitled to any increase in fares? 2. Is the method used by Airportransit for depreciating its busses a proper one? 3. What are the correct projections for passenger traffic in the test year herein considered?

Airportransit is a passenger stage corporation which transports passengers and their baggage to and from various airports. It also engages in certain operations as a charter-party carrier of passengers. This application relates to its operations between various points and San Francisco International Airport and San Jose Municipal Airport.[1/]

Both Airportransit and the staff adopted the twelve months ending December 31, 1972 as the rate year for purposes of this proceeding. Their estimates of results of operations for the test year at present rates are as follows:

Airportransit Estimated
Test Year 1972 at Present Rates

Revenues	$2,051,579
Expenses	
Equipment Maintenance	$ 147,131
Transportation Expense	817,584
Station and Terminal	317,630
Traffic Solicitation-Advertising	8,843
Insurance and Safety	62,257
Administration and General	242,584
Depreciation Expense	124,999
Operating Taxes and Licenses	86,355
Operating Rents	196,851
Interest Expense	16,370
Other Deductions	1,820
Total Expenses	$2,022,424
Income Before Taxes	$ 29,155
Taxes on Income	$ 8,600
Income After Taxes	$ 20,555
Operating Ratio	99.40%

1/ Unless otherwise specified, all references herein to revenues, expenses, etc., refer to Airportransit's northern California operations conducted under the name of Airporter and do not include any other operations.

Staff Estimated Test Year
1972 at Present Rates

Passengers	1,725,000
Bus Miles-Regular Route	1,384,000
Total Bus Miles	1,442,000
Operating Revenue	
Passenger Revenue	$1,860,000
Limousine	28,000
Charter	141,000
Miscellaneous	11,000
Total Operating Revenue	$2,040,000
Operating Expenses	
Equipment Maintenance	$ 165,000
Transportation Expense	856,000
Station and Terminal	298,000
Traffic Solicitation and Advertisement	9,000
Insurance and Safety	59,000
Administration and General	230,000
Depreciation (Net)	30,000
Operating Taxes	92,000
Operating Rents	203,000
Total Operating Expenses	$1,942,000
Net Carrier Income (Loss)	$ 98,000
Income Tax	$ 44,000
Net Income After Income Tax	$ 54,000
Rate Base	$ 463,000
Rate of Return	11.7%
Operating Ratio	97.4%

The parties agree that current rates are not sufficient to provide Airportransit with a reasonable operating ratio or rate of return for the test year. This is a result of the fact that Airportransit has incurred additional expenses due to wages and fringe benefits for bus drivers, mechanics and other personnel.

Ninety-four percent of Airportransit's revenues are derived from its route between San Francisco and San Francisco International Airport. The present one-way fare on that route is $1.10. Airportransit seeks an increase to $1.20, with appropriate increases on other routes. The staff contends that a $1.20 fare would be excessive but a $1.15 fare would be reasonable. The staff takes the position that an operating ratio of approximately 95 percent or a rate of return on the test year rate base of not more than 10 percent, whichever produces the greater fare requirement, would be reasonable. Airportransit argues, based on its figures, that the $1.20 fare would provide it with an operating ratio of 96.10 percent. In order to determine what would be a reasonable operating ratio or rate of return for Airportransit it is necessary to resolve certain controversies with respect to the appropriate data necessary in making such a determination.

Depreciation

Airportransit depreciates on its books busses using an estimated life of 8 or 9 years and an estimated salvage value of 10 percent. Its estimates for the test year utilize this depreciation. The staff disagrees with the way in which Airportransit calculates depreciation. It contends that, for rate-making purposes, Airportransit's busses should have an estimated life of 12 years and an estimated salvage value of 28 percent. The staff's estimates for the test year include adjustments for depreciation in accordance with its contentions on depreciation.

Airportransit argues that its figures on estimated life and salvage value should be adopted because: (1) These were utilized by its predecessor in interest from which it purchased the northern California operation. (2) General Motors, which manufactures busses, recommends an estimated life of 7 years and estimated salvage value of 10 percent for its busses. (3) Even if experience demonstrates that the average total depreciation and revenues derived from the sale of busses retired from service exceeds the original purchase price of the busses, no adjustment should be made because of inflation. The extra amount is necessary to enable the company to have the capital to purchase replacement equipment at inflated prices.

The staff contends that 12 years is the proper estimated life for Airportransit's busses. It also argues that, in its opinion, experience requires the conclusion that the estimated salvage value should be 28 percent.

The Commission has adopted as its own rules and regulations the Uniform System of Accounts for Class I Common and Contract Motor Carriers' of Passengers, Issue of 1955, as modified to reflect amendments adopted to and including September 18, 1967, prescribed by the Interstate Commerce Commission. (Decision No. 74101, Eleventh Supplemental Order in Case No. 4713, dated May 14, 1968.) The record indicates that Airportransit has average gross operating revenues of more than $200,000. It is a Class I carrier of passengers. The Uniform System of Accounts defines depreciation as follows:

> "22. Depreciation, as applied to depreciable operating property, means the loss in service value...not restored by current maintenance, incurred in connection with the consumption or prospective retirement of property in the course of service from causes against which the carrier is not protected by insurance, which are known to be in current operation. Among the causes to be given consideration are wear and tear, decay, action of the elements, obsolescence, changes in the art, inadequacy, changes in demand, and requirements of public authority."

Depreciation is similarly defined for other regulatory purposes[2/] and for tax purposes.[3/] The concept of recovering original cost does not contemplate an increment for future inflation. The record does not justify and the Commission is not disposed to change the method of depreciation established in the Uniform System of Accounts.

2/ "Basic Depreciation Objectives

"2. In the continuing duties of the California Public Utilities Commission in the fixing of rates and the supervision of accounts of utilities under its jurisdiction, a basic depreciation objective is that of recovering the original cost of fixed capital (less estimated net salvage) over the useful life of the property by means of an equitable plan of charges to operating expenses or clearing accounts." (Determination of Straight-Line Remaining Life Depreciation accruals, Standard Practice U-4.)

3/ 26 U.S.C. § 167 (a).

The record indicates that Airportransit's predecessor in interest, from which its stock was acquired in 1969, depreciated its busses on the basis of an 8-year life.

The record also indicates that in a recent decision involving Airportransit's affiliate in southern California, Airportransit, Inc., (Decision No. 79918 in Application No. 52651, entered April 4, 1972) the Commission authorized rates which utilized figures calculated upon depreciation of 8 or 9 years for Airportransit, Inc.'s busses. We also note that, while not determinative, for income tax purposes the Federal Government uses as a guideline for depreciation of busses the period of 9 years. (Depreciation Guidelines and Rules, Revenue Procedure 62-21, U.S. Treasury Department, Internal Revenue Service, Publication No. 456, p. 3.) The Commission is of the opinion and finds that 9 years is the appropriate and reasonable period to use for depreciation of Airportransit's busses in estimating the depreciation for the test year here under consideration.

It has already been determined that an adjustment in the calculation of depreciation is necessary for the estimated test year. In the light of the finding on the period of depreciation, it is necessary to adjust the estimated net salvage value of the busses. The staff contends that the estimated net salvage value should be 28 percent. Airportransit contends that 10 percent is appropriate. After considering all the evidence on the subject, the Commission finds that the appropriate and reasonable percentage in estimating net salvage value in estimating the depreciation of busses for the test year here under consideration is 15 percent.

The Commission also finds that for accounting purposes, gains and losses resulting from future retirement of busses shall be amortized in determining net income over a period approximately equal to the estimated service lives of contemporary busses added or acquired as replacements.

Estimated Revenues

Airportransit and the staff differ on the estimate of revenues for the test year. Airportransit's estimate is based upon the same number of passengers actually transported in 1971. The staff estimates an 18 percent increase in traffic for the test year.

The record indicates that Airportransit experienced a 6.95 percent decrease in passengers in 1969 and a 15.7 percent decrease in 1970. There is evidence which indicates that the present economic downturn has bottomed and that airline traffic, which had declined, is increasing. Airportransit argues that even if airline traffic is increasing, its business does not increase at the same rate because of competition from other types of transportation. While recognizing Airportransit's contention on this point, the Commission is of the opinion that with the increase in airline traffic, Airportransit will recapture a substantial portion of the increased traffic. The Commission finds that for the test year here under consideration it is reasonable and appropriate to project a 10 percent increase in the number of passengers carried over those carried in 1971, with commensurate adjustments in transportation and operating expenses.

Accounting Adjustments

Airportransit's authorized capital stock consists of 3,500 shares of $100 par value common stock ($350,000) all of which is outstanding and issued to the Yellow Cab Co., which is, in turn, entirely owned by Westgate-California Corporation. Yellow Cab Co. purchased all of Airportransit's outstanding stock as of March 1, 1969. The record indicates that Yellow Cab Co. recorded the excess cost of its purchase price over Airportransit's net equity as of that date (acquisition adjustment) on its books in the amount of $3,745,202.13. On December 31, 1970, Yellow Cab Co. caused an entry to be made in Airportransit's books, recording therein the excess of purchase price paid by Yellow Cab Co. over book value (acquisition adjustment) together with ten (10) months amortization of $139,306.80, by reserve accrual, of such excess. Unearned Surplus was credited with the net amount of $3,605,895. The following tabulation summarizes the excess cost transaction:

Excess of purchase price of Airportransit's (formerly Barrett) stock over net assets acquired	$3,745,202.13*
Amortization accrued in Yellow Cab Co. books, March 1 to December 31, 1969	139,306.80
Net transferred and credited in Airportransit of California books as "Unearned Surplus"	$3,605,895.33

*The purchase price of $3,750,000 obtained net assets of $509,815 being the book value at February 28, 1969, of assets acquired. The resulting difference of $3,240,183 differs from the $3,745,202 recorded as Excess Purchase Price.

Yellow Cab's excess payment for applicant's outstanding stock is based on the parent company's valuation of Airportransit's common stock equity as of that date. However, such a recording in the books of Airportransit is unsupported by any outlay of funds or other real consideration by Airportransit and is merely a self-appraisal of its own worth. The entry is without approval from this Commission and it should be removed and omitted from the applicant's books.

If we take the Income and Expense Statement, introduced by Airportransit, for the audited year 1971 (Exhibit 2) and modify it with the adjustments heretofore indicated, the following results are obtained:

Exhibit 2 Modified
for Rate Making (1)

Item	S.F. Fare $1.10 (present fare)	S.F. Fare Increased to $1.15	S.F. Fare Increased to $1.20
Gross Revenue Adjusted	$2,026,868	$2,026,868	$2,026,868
Additional Revenue from Fare Increase	-	83,665	167,330
Gross Revenue	2,026,868	2,110,533	2,194,198
Total Expenses Before Income Tax	1,941,119	1,991,119	1,991,119
Income Tax (Exhibit 2)	8,600	8,600	8,600
Additional Income Tax for Adjusted, Expenses, Depreciation, etc.	29,225	29,225	29,225
Additional Airport Rent	-	7,658	15,316
Additional Income Tax Increased Fares	-	39,250	78,500
Total Expenses	1,978,944	1,996,627	3,043,535
Net Operating Revenues	47,924	113,906	150,663
Rate Base	422,121	422,121	422,121
Equity as of 8/31/71	1,002,952	1,002,952	1,002,952
Rate of Return	11.35%	26.98%	35.69%
Operating Ratio	97.64%	94.60%	93.13%
Net of Interest and Other Deductions	6,521	6,521	6,521
Net Income	54,445	120,427	157,184

(1) Excludes interest revenue and expense, other income deductions and adjusts depreciation to 9-year life with 15 percent salvage value.

The Commission is of the opinion and finds that, for the test year, the present basic rate of $1.10 would be unreasonable. The requested basic rate of $1.20 would be excessive. A basic rate of $1.15 which would result in an operating ratio of 94.60 percent, and a rate of return of 26.98 percent would be just and reasonable. No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. Airportransit is a passenger stage corporation which transports passengers and their baggage to and from various airports. It also engages in certain operations as a charter-party carrier of passengers. This application relates to its operations between various points and San Francisco International Airport and San Jose Municipal Airport.

2. Ninety-four percent of Airportransit's revenues are derived from its route between San Francisco and San Francisco International Airport. The present one-way fare on that route is $1.10.

3. Airportransit presently depreciates busses on its books using an estimated life of 8 or 9 years and an estimated salvage value of 10 percent.

4. The Commission has adopted as its own rules and regulations the Uniform System of Accounts for Class I Common and Contract Motor Carrier's of Passengers, Issue of 1955, as modified to reflect amendments adopted to and including September 18, 1967, prescribed by the Interstate Commerce Commission. (Decision No. 74101, Eleventh Supplemental Order in Case No. 4713, dated May 14, 1968.) Airportransit has average gross operating revenues of more than $200,000. It is a Class I carrier of passengers.

The Uniform System of accounts defines depreciation as follows:

> "22. Depreciation, as applied to depreciable operating property, means the loss in service value...not restored by current maintenance, incurred in connection with the consumption or prospective retirement of property in the course of service from causes against which the carrier is not protected by insurance, which are known to be in current operation. Among the causes to be given consideration are wear and tear, decay, action of the elements, obsolescence, changes in the art, inadequacy, changes in demand, and requirements of public authority."

5. The Commission in "Determination of Straight-Line Remaining Life Depreciation Accruals, Standard Practice U-4" has indicated:

> "Basic Depreciation Objectives
>
> "2. In the continuing duties of the California Public Utilities Commission in the fixing of rates and the supervision of accounts of utilities under its jurisdiction, a basic depreciation objective is that of recovering the original cost of fixed capital (less estimated net salvage) over the useful life of the property by means of an equitable plan of charges to operating expenses or clearing accounts. . . ."

6. Inflation is not a factor to be used in calculating depreciation.

7. The stock of Airportransit was acquired by its parent, Yellow Cab Co., in 1969. The previous owners had depreciated its busses on the basis of an 8 year life.

8. In a recent decision involving Airportransit's affiliate in southern California, Airportransit, Inc., (Decision No. 79918 in Application No. 52651, entered April 4, 1972) the Commission authorized rates which utilized figures calculated upon depreciation of 8 or 9 years for Airportransit, Inc.'s busses.

9. Nine years is the appropriate and reasonable period to use for the depreciation of Airportransit's busses, in the operations here under consideration, for regulatory purposes and for estimating the depreciation for the test year here under consideration.

10. The appropriate and reasonable percentage for estimating salvage value to be used by Airportransit in calculating depreciation of its busses for the test year here under consideration is the amount of 15 percent of the cost of said busses.

11. It is appropriate and reasonable, for accounting purposes, that gains and losses resulting from retirement of busses shall be amortized in determining net operating income over a period approximately equal to the estimated service lives of contemporary busses added or acquired as replacements.

12. Airportransit experienced a 6.95 percent decrease in passengers in 1969 and a 15.7 percent decrease in 1970.

13. The present economic downturn has bottomed and that airline traffic, which had declined, is increasing. Airportransit will realize an increase in passenger traffic as a result of increasing airline traffic.

14. It is appropriate and reasonable to project that Airportransit will have a 10 percent increase in the number of passengers carried over those carried in 1971 for the test year herein considered. Estimated operating revenues, expenses and transportation expenses should be adjusted accordingly.

15. Airportransit's authorized captial stock consists of 3,500 shares of $100 par value common stock ($350,000) all of which is outstanding and issued to the Yellow Cab Co., which is, in turn, entirely owned by Westgate-California Corporation. Yellow Cab Co. purchased all of Airportransit's outstanding stock as of March 1, 1969. Yellow Cab Co. recorded the excess cost of its purchase price over Airportransit's net equity as of that date (acquisition adjustment) on its books in the amount of $3,745,202.13. On December 31, 1970, Yellow Cab Co. caused an entry to be made in Airportransit's books, recording therein the excess of purchase price paid by Yellow Cab Co. over book value (acquisition adjustment) together with ten (10) months amortization of $139,306.80, by reserve accrual, of such excess. Unearned Surplus was credited with the net amount of $3,605,895. The following tabulation summarizes the excess cost transaction:

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*The purchase price of $3,750,000 obtained net assets of $509,815, being the book value at February 28, 1969, of assets acquired. The resulting difference of $3,240,183 differs from the $3,745,202 recorded as Excess Purchase Price.

16. Yellow Cab's excess payment for applicant's outstanding stock is based on the parent company's valuation of Airportransit's common stock equity as of that date. However, such a recording in the books of Airportransit is unsupported by any outlay of funds or other real consideration by Airportransit and is merely a self-appraisal of its own worth. The entry is without approval from this Commission and it should be removed and omitted from the applicant's books.

17. The following estimates of operating revenues, operating expenses and rate base for the test year 1972, reasonably indicate the results of operations at the present rates and other rates projected therein:

Exhibit 2 Modified
for Rate Making (1)

Item	S.F. Fare $1.10 (present fare)	S.F. Fare Increased to $1.15	S.F. Fare Increased to $1.20
Gross Revenue Adjusted	$2,026,868	$2,026,868	$2,026,868
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Rate of Return	11.35%	26.98%	35.69%
Operating Ratio	97.64%	94.60%	93.13%
Net of Interest and Other Deductions	6,521	6,521	6,521
Net Income	54,445	120,427	157,184

(1) Excludes interest revenue and expense, other income deductions and adjusts depreciation to 9-year life with 15 percent salvage value.

18. Based upon the test year herein considered the present basic rate of $1.10 is for the future unreasonable. The requested basic rate of $1.20 would be excessive. A basic rate of $1.15 which would result in an operating ratio of 94.60 percent, and a rate of return of 26.98 percent would be just and reasonable.

19. A basic one-way rate of $1.15 from San Francisco to San Francisco International Airport, with commensurate fare adjustments between other points served in Airportransit's northern California operations would be just and reasonable.

20. The increases in rates and charges authorized in Appendix A herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

21. Pursuant to Rule 23.1 of the Commission's Rules of Procedure:

(a) The increased rates are expected to provide increased revenues of $83,665 yearly for the applicant.

(b) The operating ratio on the herein adopted rate base is expected to be 94.60 percent, as compared to 97.64 percent at present rates.

(c) The increases are cost-justified and do not reflect future inflationary expectations; the increases are reduced to reflect productivity gains; the increases are the minimum rates which are necessary to assure continued and adequate service.

Conclusions of Law

1. Airportransit should be ordered to revise and reflect on its books, for regulatory purposes, until further order of the Commission, the period of nine years for estimating depreciation for the busses used in its northern California operations.

2. Airportransit should be ordered to revise and reflect on its books, for regulatory purposes, until further order of the Commission, for estimating salvage value in calculating depreciation for the busses used in its northern California operations the amount of 15 percent of the cost of said busses.

3. Airportransit should be ordered, for accounting purposes, to amortize gains and losses resulting from future retirement of busses in determining net operating income over a period approximately equal to the estimated service lives of contemporary busses added or acquired as replacement.

4. Airportransit should be ordered to delete from its books the recording of the excess of purchase price paid by Yellow Cab Co. over book value and the ten months amortization of $139,306.80, by reserve accrual of such excess.

5. Airportransit should be authorized to adopt the fares set forth in Appendix A attached hereto.

O R D E R

IT IS ORDERED that:

1. Airportransit of California is authorized to establish the increased fares set forth in Appendix A attached hereto. Tariff publications authorized to be made 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 thirty days after the effective date hereof and on not less than thirty days' notice to the Commission and to the public.

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

3. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its busses and terminals a printed explanation of its fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.

4. Airportransit shall, for regulatory purposes, revise and reflect upon its books for accruals to the depreciation reserve for busses used in its northern California operations an estimated life of nine years until further order of the Commission.

5. Airportransit shall, for regulatory purposes, revise and reflect upon its books in calculating accruals to the depreciation reserve for busses used in its northern California operations the amount of 15 percent of the cost of said busses as net salvage value until further order of the Commission.

6. Airportransit shall, for accounting purposes, amortize gains and losses resulting from future retirement of busses in determining net operating income over a period approximately equal to the estimated service lives of contemporary busses added or acquired as replacements.

7. Airportransit shall delete from its books the recording of the excess of purchase price paid by Yellow Cab Co. over book value and the ten months amortization of $139,306.80, by reserve accruals of such excess.

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

Dated at San Francisco, California, this 29th day of AUGUST, 1972.

Vernon L. Sturgeon
President

William Symons Jr.

J. P. Vukasin

Thomas Moran

D. W. Holmes
Commissioners

A. 52828 ek

APPENDIX A

ONE-WAY ADULT FARES
(In cents per Fare)

INDEX NO.	BETWEEN AND	San Francisco International Airport	San Jose Municipal Airport
2	San Francisco International Airport	-	275
4	San Francisco	115	-
6	(1) Oakland	125	-
8	Berkeley	155	-
10	Burlingame	80	275
12	San Mateo	80	255
14	Belmont	105	240
16	San Carlos	135	240
18	Redwood City	135	240
20	Menlo Park	195	225
22	Palo Alto	195	210
24	Mountain View	220	210
26	Sunnyvale	240	195
28	Santa Clara	250	185
30	San Jose	275	155
32	San Jose Municipal Airport	275	-

(1) Includes Oakland Airport