

ORIGINAL

Decision No. 81446

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ISLAND BOAT SERVICE,  
a corporation, for authority to  
increase its tariff rates as a  
common carrier by vessel.

Application No. 53876  
(Filed March 5, 1973;  
amended May 1, 1973)

OPINION AND ORDER

Island Boat Service is a vessel common carrier engaged in the transportation of passengers between points on the coast of Santa Catalina Island.<sup>1/</sup> By this application the carrier seeks authority to increase passenger fares for its service which is principally a summer sightseeing operation. Applicant asserts that immediate rate relief is necessary because it has been required to absorb substantial increases in labor and vessel charter costs since its rates were last adjusted. Applicant also requests that disposition of this proceeding be made as soon as possible due to the necessity to print promotional literature for the 1973 season.

Applicant's current rates were established pursuant to Decision No. 77405 dated June 23, 1970. Applicant estimates that the net effect of the request would be an overall fare increase of approximately 25 percent.

1/ Applicant performs common carrier service between Avalon and Gallagher's Beach, Toyon Bay, White's Landing, Camp Fox, Empire Landing, Isthmus Cove, and Emerald Bay. Applicant does not operate between Catalina Island and the mainland.

Attached to the application are the following appendices:

- Appendix A - Proposed fares between points and places on the coast of Santa Catalina Island, California. (Present fares shown in parentheses)<sup>2/</sup>
- Appendix B-1 - Balance sheet, December 31, 1972.
- Appendix B-2 - Statement of profit and loss for the year ending December 31, 1972.
- Appendix C - Pro forma profit and loss statement for the year ended December 31, 1973.
- Appendix D - Development of pro forma passenger revenue - Two Harbors trip (between Avalon and Emerald Bay and intermediate points).

In performing common carrier service applicant uses the Blanche W, a 100-passenger sightseeing boat on charter from Catalina Operations Company. For 1973 applicant's charter rental expense will be \$65 per round trip, which takes a minimum of 2½ hours. Applicant asserts that there is no other comparable equipment on the island which could provide the service, and that mainland charter equipment of 100 passengers, if available, would require substantially higher rents.

Applicant's 1972 balance sheet and profit and loss statement encompass, in addition to its scheduled common carrier service, the ownership and operation of the motor vessel Cabrillo, official registry number ON 283,508. The Cabrillo is on charter to California Motor Cruisers, Inc., a vessel common carrier operating between the Port of Los Angeles and Avalon. The Cabrillo is reflected on applicant's balance sheet as an asset of \$75,870.71,

<sup>2/</sup> Applicant's current adult and child fares are published between each point in its Local Passenger Tariff 3. The present and proposed fares also are identified herein in Appendix A.

depreciated from a cost of \$125,901.76. Applicant's other assets, consisting of cash and receivables, total \$45,736.55. On December 31, 1972 applicant had a deficit for its combined common carrier and charter operations of \$77,566.04, after allowance for a profit of \$4,953.32.

Applicant asserts that traffic between Avalon and the Isthmus has been declining in recent years. The passenger count for 1971 was 7,341 and for 1972 it was 5,869, a decrease of 1,472 passengers. Applicant's 1972 operating ratio after income taxes for its common carrier operations, including mail revenue, was 88.2 percent. Without mail revenue the operating ratio was 90.1 percent. Applicant explains that the 1972 operating ratios reflect unusual revenue between Avalon and Camp Fox which will not be realized in 1973.

Applicant's pro forma results of common carrier operations with the Blanche W as of December 31, 1973 are based upon 1972 passenger counts for the same days as the 1973 anticipated sailing schedule. The projected results are summarized as follows:

Passenger revenue	\$13,344.50
Mail contract	<u>400.00</u>
Total revenue	\$13,744.50
Total expenses	<u>12,042.48</u>
Net before income taxes	\$ 1,702.02
Income taxes	<u>471.50</u>
Net after income taxes	\$ 1,230.52
Operating ratio before taxes	87.62%
Operating ratio after taxes	91.04%
<u>Without Mail Revenue</u>	
Operating ratio before taxes	90.24%
Operating ratio after taxes	93.77%

In addition to revenue from its common carrier operation, applicant anticipates that it will receive \$15,000 from charter of

its vessel, the Cabrillo. After expenses and income taxes the Cabrillo operation is expected to produce a net income of \$1,078.50 in 1973.

The Commission's Finance and Accounts Division has prepared a 9-page financial report of Island Boat Service. The document, distributed April 27, 1973, entitled "Report and Examination of Books and Records of Account" is incorporated in the formal file in this matter as Exhibit 1. The text of Exhibit 1 covers the following subjects: Purpose and Scope of Report, Accounting Records, Ownership and Affiliated Interests, Nature of Operations, Balance Sheet, Income and Surplus Statement, Operating Data, Conclusions, and Recommendations. Exhibit 1 also contains the following tables:

Table 1 - Comparative Balance Sheet at  
December 31, 1970, 1971, and  
1972, Staff Adjusted.

Table 2 - Comparative Income and Surplus  
Statement, Calendar Years 1971  
and 1972, Staff Adjusted.

Exhibit 1 supports applicant's contention that a fare increase is required for it to operate at a reasonable profit. It shows that applicant is subsidized by its affiliate, Catalina Operations Company.<sup>3/</sup> Applicant has no operating employees of its own, and the projected \$65 per round trip expense of the Blanche W includes all direct operating expenses of the vessel. The Blanche W costs Catalina Operations Company \$102.99 per round trip to operate. The excess cost over the \$65 per round trip rental rate to applicant is \$37.99. Applicant has no net carrier investment. The Blanche W was fully depreciated by the lessor in 1957. Under the circumstances the measure of earnings relied upon by the staff for this proceeding is the operating ratio.

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<sup>3/</sup> Exhibit 1 discloses that applicant is a wholly owned subsidiary corporation of Santa Catalina Island Company, a Delaware corporation. Applicant is affiliated with Catalina Operations Company, Wilmington Transportation Co., and Catalina Rock and Ranch Co., also subsidiaries of Santa Catalina Island Company.

In Tables 1 and 2 of Exhibit 1 the staff shows an adjusted 1972 deficit of \$112,664. Table 2 reflects an adjusted 1972 operating ratio of 97.2 percent for the Blanche W common carrier operation, separated from the non-carrier Cabrillo charter operation. Applicant incurred no federal income tax liability. The staff reports that applicant's federal income tax return is included in the consolidated return filed by the Santa Catalina Island Company. The staff recommends in Exhibit 1 that applicant be permitted to increase fares, providing the operating ratio does not drop below 90 percent.

The Commission's Transportation Division has prepared a 9-page study of applicant's operations. The document distributed May 16, 1973 entitled "Estimated Results of Operation, Rate Year 1973" is incorporated in the formal file in this matter as Exhibit 2.

The text of Exhibit 2 refers to the facts surrounding the operation of Island Boat Service and projects operating results for 1973. The estimates are made on two bases, depending upon whether or not the steamship Catalina operates between San Pedro and Avalon in 1973. According to the report the demand for applicant's services depends heavily on the operation of the Catalina. The steamer has a capacity of over 2,000 and usually carries over 40 percent of the visitors to the island. In 1971 it transported 144,000 out of 343,000 passengers. The Catalina did not operate in 1972 with the result that the total number of passengers to the island dropped to 292,000. This in turn caused the decrease in business reported by applicant between 1971 and 1972.

The projections in Exhibit 2 take into account the fact that visitors to the island had been increasing at a substantial rate through 1971, and also that smaller vessels of the cruiser type are being used to transport passengers to the island. In 1972 the G T Avalon (500 passenger gas turbine cruiser) carried

42,000 passengers to the island. Although it may not operate to Catalina in the remainder of 1973, two larger cruisers are scheduled to be in service by June 1, 1973.

In Exhibit 2 the Transportation Division estimates that without steamer service to the island in 1973, applicant will experience a loss at present fares, considering the \$65 per trip expense shown in the application. Under proposed fares an operating ratio of 86 percent after income taxes would obtain. If the steamer does operate applicant would have operating ratios of 87 percent at present fares and 75 percent at proposed fares.

Based on the \$103 operating expense of the Blanche W experienced by applicant's affiliate, the Catalina Operations Company, comparable estimates show that a profit would result only under the conditions that the steamer operates and applicant is authorized the sought increased fares.

The Transportation Division concludes that the proposed fare increase is warranted. It recommends that the application be granted ex parte.

Notice of the filing of the application appeared on the Commission's Daily Calendar. Copies of the application were served upon the City Council of Avalon, and upon the Board of Supervisors of Los Angeles County. No objection to the sought increases in fares has been received.

#### Findings

1. Present rates and charges which applicant maintains in its Local Passenger Tariff No. 3 do not provide revenues sufficient to enable applicant to cover the expenses of performing the common carrier vessel operation here involved, plus a reasonable profit.

2. The estimated financial results and results of operation contained in staff Exhibits 1 and 2 are reasonable estimates and should be adopted. The results shown in Exhibits 1 and 2 support the request for increased fares contained in the application.

3. Applicant is in need of additional revenue to offset the increases in operating costs it has experienced since the passenger fares were last adjusted in 1970.

4. Applicant should be authorized to establish the proposed increased rates contained in Appendix A attached hereto.

5. The rate increases authorized herein are consistent with Rule 23.1 of this Commission's Rules of Procedure:

- a. The proposed rate increases are cost justified. The increased revenue sought in this proceeding is to offset increases in costs occurring since rates were last adjusted in 1970.
- b. The increased costs sought to be recovered in this phase of the proceeding are those currently being experienced by the applicant.
- c. The proposed rate increases are the minimum required to assure continued adequate and safe service of applicant.
- d. The proposed rate increases take into account expected and obtainable productivity gains, efficiencies, and savings.
- e. No public utility common carrier vessel operator has expressed a willingness and capacity to provide the current services of applicant at existing rates.

The Commission concludes that the sought increases in fares should be granted. A public hearing is not necessary.

IT IS ORDERED that:

1. Applicant is authorized to establish the increased one-way and round trip fares contained in Appendix A attached hereto and made a part hereof.

2. 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 10 days after the effective date hereof on not less than five days' notice to the Commission and to the public.

3. The authority granted herein shall expire unless exercised within 60 days after the effective date of this order.

The effective date of this order is the date hereof.

30<sup>th</sup> Dated at San Francisco, California, this  
day of MAY, 1973.

Vernon L. Stenger  
President  
William J. Stenger  
William J. Stenger  
William J. Stenger  
William J. Stenger  
Commissioners



## APPENDIX A

Present and Proposed ( ) One-Way FaresBetween Avalon, Emerald Bay, and Intermediate Points\*

	<u>Gallagher's Beach</u>	<u>Toyon Bay</u>	<u>White's Landing</u>	<u>Camp Fox</u>	<u>Empire Landing</u>	<u>Isthmus Cove</u>	<u>Emerald Bay</u>
<u>ADULT FARES</u>							
Avalon	\$1.30 (1.65)	\$1.30 (1.65)	\$1.30 (1.65)	\$1.30 (1.65)	\$1.50 (1.90)	\$2.00 (2.50)	\$2.60 (3.25)
Gallagher's Beach		1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	2.00 (2.50)
Toyon Bay			1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	1.85 (2.35)
White's Landing				1.30 (1.65)	1.30 (1.65)	1.30 (1.65)	1.70 (2.10)
Camp Fox					1.30 (1.65)	1.30 (1.65)	1.60 (2.00)
Empire Landing						1.30 (1.65)	1.10 (1.40)
Isthmus Cove							1.30 (1.65)

<u>CHILD FARES</u>							
Avalon	.65 (.85)	.65 (.85)	.65 (.85)	.65 (.85)	.75 (.95)	1.00 (1.25)	1.30 (1.65)
Gallagher's Beach		.65 (.85)	.65 (.85)	.65 (.85)	.75 (.95)	.75 (.95)	1.00 (1.25)
Toyon Bay			.65 (.85)	.65 (.85)	.75 (.95)	.75 (.95)	.95 (1.20)
White's Landing				.65 (.85)	.65 (.85)	.65 (.85)	.85 (1.05)
Camp Fox					.65 (.85)	.65 (.85)	.80 (1.00)
Empire Landing						.65 (.85)	.65 (.85)
Isthmus Cove							.65 (.85)

\*Present and proposed round trip fares are double one-way fares, less five cents.