

Decision No. 84717**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREYHOUND LINES, INC.  
(WESTERN DIVISION), for an order  
authorizing a statewide increase in  
intrastate passenger fares and express  
rates and GREYHOUND LINES, INC.  
(WESTERN DIVISION), LAS VEGAS-TONOPAH-  
RENO STAGE LINE, INC., ORANGE BELT  
STAGES, a corporation, PEERLESS STAGES,  
INC., and VACA VALLEY BUS LINES for an  
order authorizing a statewide increase  
in interline express rates.

Application No. 55456  
(Filed January 23, 1975)

W. L. McCracken, Attorney at Law, for Greyhound  
Lines, Inc., applicant.  
Robert Kilius, for himself, protestant.  
James T. Quinn, Attorney at Law, and Ora A. Phillips,  
for the Commission staff.

O P I N I O N

Greyhound Lines, Inc. (Greyhound) is a wholly owned subsidiary of The Greyhound Corporation. Greyhound, through its Greyhound Lines - Western Division, transports passengers, baggage, and express in 26 western states. In California it performs main line intercity passenger and express service generally statewide, transporting both intrastate and interstate traffic. Greyhound also provides local commute and suburban service.<sup>1/</sup> In addition to its passenger stage and express operations Greyhound also conducts a statewide charter-party service.

1/ The commute and suburban service routes are:

1. Peninsula (Ocean): San Francisco-Half Moon Bay.
2. Peninsula (Ocean-Skyline): San Francisco-San Bruno Avenue.
3. Peninsula (Bay): San Francisco-San Jose.
4. East Bay (Vallejo): San Francisco-Vallejo.
5. Contra Costa: San Francisco/Oakland-Walnut Creek, Concord, Martinez, Pittsburg, Antioch.
6. Sacramento-Davis/Woodland.
7. Westmorland-Calxico.

In Decision No. 82540 dated March 5, 1974 in Application No. 54569 Greyhound was authorized to make its passenger fares subject to an interim fuel cost offset surcharge of 1.36 percent. By Decision No. 83064 issued June 25, 1974 in Applications Nos. 54569 and 54653 Greyhound was granted a cost offset interim increase of 9 percent. Finally, in Decision No. 83777 dated November 26, 1974 in Application No. 54653 authority was granted for an additional increase in fares and express rates amounting to 7.8 percent. The passenger fares and express rates thus established have been in effect since December 16, 1974. In Application No. 55456 authority is requested for a labor cost offset increase in fares and express rates that will restore the 10.5 percent rate of return previously authorized by Decision No. 83777.

Public hearing of Application No. 55456 was held before Examiner Gagnon on May 1, 1975 in San Francisco at which time the matter was submitted. Evidence was presented by Greyhound and the Commission's Transportation Division staff.

Cost Offset Proposal

The collective bargaining agreement covering Greyhound's drivers, station personnel, and office workers was renegotiated for a three-year term. The new labor contract was ratified on December 20, 1974 and became effective retroactively from November 1, 1974 with resultant increases in Greyhound's wage costs and related payroll expenses. Corresponding increases have also occurred in noncontract employee categories. To offset the increases in labor costs assignable to Greyhound's California intrastate passenger and express operations, it is estimated that \$1,090,000 in additional annual revenues are required.

The Assistant Comptroller for Greyhound's Western Division presented a series of statements pertaining to the results of Greyhound's California intrastate operations (Exhibit 2). The adjusted results of intrastate operations for the historical rate year ending December 31, 1974, as summarized in Table 3 of Decision No. 83777, were first introduced as a basis for the comptroller's subsequent projected results of operations for a test year ending October 31, 1975. The historical adjusted results of operations are:

TABLE 1  
(Reproduced from Table 3 in Decision No. 83777)

Adjusted Intrastate Results of Operations  
For the Test Year Ending 12-31-74  
(000)

	Intrastate Operations		
	Total	Intercity	Local
Operating Revenues (Table 2)	\$55,156	\$45,781	\$ 9,375
Charter (10.3% increase)	172	172	-
Proposed Second-Step Increase			
Passenger Fares - 7.8%	2,931	2,352	579
Express Rates - 7.8%	463	463	-
Total	\$58,722	\$48,768	\$ 9,954
Operating Expenses (Table 2)	\$53,471	\$41,002	\$12,469
Commission on Increased Revenues			
Charter	11	11	-
Passenger	124	99	25
Express	48	48	-
Total	\$53,654	\$41,160	\$12,494
Operating Income	\$ 5,068	\$ 7,608	\$(2,540)
Income Taxes	2,108	3,165	(1,057)
Net Income	\$ 2,960	\$ 4,443	\$(1,483)
Rate Base	\$28,306	\$23,247	\$ 5,059
Operating Ratio After Taxes	95.0%	90.9%	114.9%
Rate of Return	10.5%	19.1%	-

(Red Figure)

The adjusted results summarized in Table 1 were brought forward to reflect subsequent changes in revenues and expenses as shown in Table 2:

TABLE 2

California Intrastate Results of Operation at  
Present Fares, Rates Including Known Increases  
And Adjustments for Reduction in Service  
Test Year Ending 10-31-75

(000)

	Intrastate Operations		
	Total	Intercity	Local
<u>Operating Revenues</u>			
Total Operating Revenues	\$58,722	\$48,768	\$ 9,954
Increase in Charter Rates (6.20% - 11/1/74)	201	201	-
Adjusting for effective date of 7.8%			
Increase 12/16/74			
Passenger	( 337)	( 270)	( 67)
Express	( 53)	( 53)	-
Reduction in Service			
Long Beach - Santa Monica	( 127)	-	( 127)
Contra Costa - Commute	(3,145)	-	(3,145)
San Diego - San Ysidro	( 685)	-	( 685)
Total Revenues	\$54,576	\$48,646	\$ 5,930
<u>Operating Expenses</u>			
Total Operating Expenses	\$53,654	\$41,160	\$12,494
Increases in Oper. Expenses			
Wages	1,346	1,030	316
Pension	306	241	65
Soc. Sec. Taxes	66	50	16
Reduction in Service			
Long Beach - Santa Monica	( 322)	15	( 337)
Contra Costa - Commute	(3,713)	168	(3,881)
San Diego - San Ysidro	( 637)	58	( 695)
Commissions:			
Increase in Charter Revenue	13	13	-
Adjustment to 7.8% Revenue			
Increase			
Passenger	( 14)	( 11)	( 3)
Express	( 6)	( 6)	-
Total Operating Expenses	\$50,693	\$42,718	\$ 7,975
Operating Income	\$ 3,883	\$ 5,928	\$(2,045)
Income Taxes	1,615	2,466	( 851)
Net Income	\$ 2,268	\$ 3,462	\$(1,194)
Rate Base	\$28,306	\$23,247	\$ 5,059
Adjust for Reduction in Service	(1,022)	-	(1,022)
	\$27,284.	\$23,247	\$ 4,037
Operating Ratio After Taxes	95.8%	92.9%	120.1%
Rate of Return	8.3%	14.9%	-

(Red Figure)

A summary of the comptroller's explanation of his adjustments shown in Table 2 follows:

A. Revenues

1. A 6.20 percent increase in charter rates, effective as of November 1, 1974.
2. An increase in passenger fares and express rates of 7.8 percent, with an effective date of December 16, 1974. This increase will make itself felt over a ten and one-half months period of the full-rate year. Table 1 projects the magnitude of this increase on an annual basis.
3. A complete discontinuation of services between Long Beach and Santa Monica and local services between San Diego and San Ysidro. The elimination of this local portion of the entire San Diego - San Ysidro operation, was based on a study performed for one week during April 1974. The computation of the effect of the reduction in service for Contra Costa County was based on the assumptions that the month of August 1974 reflected a normal level of service, and that current operations will cease as of June 30, 1975.<sup>2/</sup>

B. Expenses

1. An increase in wages principally due to a new nationwide labor agreement which became effective as of November 1, 1974.
2. An increase in pensions resulting from increased wages and additional funding requirements under the recent labor agreement.
3. Higher Social Security expenses, illustrating the effect of increasing taxable wages from a maximum of \$13,200 to \$14,100. The overall effect of this change was estimated to increase expenses by 4.143 percent.

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<sup>2/</sup> Extended to December 31, 1975 pursuant to Decision No. 84513 dated June 10, 1975 in Application No. 55135.

4. The complete discontinuation of services between Long Beach and Santa Monica and local services between San Diego and San Ysidro. The adjustment for Contra Costa commute operations reflects a reduction in service to the actual operating level from the beginning of the test year through the week ending on December 22, 1974, and from then on envisages a constant decline in activity with a complete cessation of service on June 30, 1975.
5. Various adjustments of commission expense applicable to changes in revenues.

C. Rate Base

The reduction and/or discontinuation of intrastate services required an adjustment to the rate base originally allocated to such services. The magnitude of this adjustment was determined on the basis of ratios which were developed when the effects of the reduction in services on the applicable depreciation expenses were established.

If the sought revenue relief is not authorized, Table 2 indicates that the 10.5 percent rate of return found to be not unreasonable for Greyhound's California intrastate operations in Decision No. 83777 will decrease to 8.3 percent. The 19.1 percent rate of return previously authorized in connection with Greyhound's intercity operations would be similarly reduced to 14.9 percent. The reduction in intercity earnings is partially offset by the 6.2 percent increase in Greyhound's unregulated charter rates. Operating statements showing Greyhound's adjusted results of intrastate operations for the October 31, 1975 test year under two revenue proposals are summarized in Tables 3 and 4:

TABLE 3

California Intrastate Results of Operation  
At Proposed 3 Percent Increase in Fares and Rates  
Test Year Ending 10-31-75

	(000)		
	Intrastate Operations		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
Total Revenues	\$54,576	\$48,646	\$ 5,930
Proposed Increases			
R/T Fares from 190-200%			
of O.W. fares	760	760	-
Passenger - Local Service - 3%	140	-	140
Express - 3%	190	190	-
Total Revenues	\$55,666	\$49,596	\$ 6,070
<u>Operating Expenses</u>			
Total Oper. Expenses	\$50,693	\$42,718	\$ 7,975
Com. on Prop. Rev. Incr.			
Passenger	38	32	6
Express	20	20	-
Total Oper. Expenses	\$50,751	\$42,770	\$ 7,981
Operating Income	\$ 4,915	\$ 6,826	\$(1,911)
Income Taxes	<u>2,045</u>	<u>2,839</u>	<u>( 794)</u>
Net Income	\$ 2,870	\$ 3,987	\$(1,117)
Rate Base	\$27,284	\$23,247	\$ 4,037
Operating Ratio After Taxes	94.8%	92.0%	118.4%
Rate of Return	10.52%	17.15%	-

(Red Figure)

Under Greyhound's first proposal it is estimated that cancellation of intercity round-trip discount fares will increase revenues by \$760,000. A 3 percent increase in local service and intercity express revenues is expected to raise additional revenues amounting to \$330,000 per year. This first revenue proposal generates additional revenues sufficient to fully offset the labor cost increase of \$1,090,000 computed by Greyhound.

TABLE 4  
 California Intrastate Results of Operations  
 At Proposed 2-1/2 Percent Increase in Fares and Rates  
 Test Year Ending 10-31-75  
 (000)

	<u>Intrastate Operations</u>		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
Total Revenues	\$54,576	\$48,646	\$ 5,930
Proposed Increases			
Passenger Revenues 2-1/2%	923	806	117
Express Revenues 2-1/2%	159	159	-
Total Revenues	\$55,658	\$49,611	\$ 6,047
<u>Operating Expenses</u>			
Total Oper. Expenses	\$50,693	\$42,718	\$ 7,975
Com. on Proposed Rev. Incr.			
Passenger	39	34	5
Express	16	16	-
Total Operating Expenses	\$50,748	\$42,768	\$ 7,980
Operating Income	\$ 4,910	\$ 6,843	\$(1,933)
Income Taxes	2,043	2,847	( 804)
Net Income	\$ 2,867	\$ 3,996	\$(1,129)
Rate Base	\$27,284	\$23,247	\$ 4,037
Operating Ratio After Taxes	94.8%	91.9%	118.7%
Rate of Return	10.51%	17.19%	-

(Red Figure)

Table 4 shows that a 2.5 percent increase in Greyhound's intrastate passenger and express revenues will amount to approximately \$1,082,000. While both revenue proposals generate earnings sufficient to yield a 10.5 percent rate of return for Greyhound's total California intrastate operations, the allocation of such total operating results as between Greyhound's intercity and local operations shows earning ratios declining below the historical level established in Decision No. 83777.



Proposed Fares and Rates

To achieve its sought revenue relief Greyhound suggests the following tariff proposals:

Proposal No. 1

- a. All passenger fares, i.e., main line, commute, and suburban areas, round-trip fares to be 200 percent of the one-way fares.
- b. Ten-ride, twenty-ride, and one-way single-ride fares to be increased 3 percent with no change in the minimum fare.
- c. One-way main line passenger fares - No increase.
- d. Local, interdivision, and joint express rates to be increased by 3 percent and the resulting rates utilized in the construction of rates for packages shipped daily.
- e. Continue previously authorized methods of constructing fares and rates adopted by Decision No. 83777 except as herein set forth.

Proposal No. 2

a. Main Line Passenger Fares

To increase the main line mileage scale established by Decision No. 83777 by 2.5 percent, retaining the present minimum fare of \$0.60.

b. Commute and Suburban Areas

Ten-ride, twenty-ride, and one-way single-ride fares established by Decision No. 83777 to be increased by 2.5 percent.

- c. Local interdivision and joint express rates to be increased by 2.5 percent and to utilize the resulting rates in the construction of rates for packages shipped daily.
- d. Continue previously authorized methods of constructing fares and rates adopted by Decision No. 83777 except as herein set forth.

While Greyhound prefers its first tariff proposal it has no objection to the adoption of its second proposal. The passenger fares and express rates involved in this proceeding are published in Greyhound's tariffs listed in Exhibit 1 (Appendix T-2). Authority is requested to put the sought increases in main line, commute, and suburban passenger fares into effect by means of appropriate conversion tables for a period of eight months pending the reissuance of tariffs.

The Director of Traffic for Greyhound's Western Division explained that appropriate cost offset rate relief will be sought throughout the system on both intrastate and interstate traffic. The director states that Greyhound is not relying solely on fare and rate adjustments to maintain its economic well-being but is also engaged in a sales promotion program to attract patronage from the private automobile and avoid a diversion of traffic to Amtrak (rail) and the airlines. A continuous effort of cost control through efficient utilization of manpower and equipment is assertedly made a part of Greyhound's daily operations. It is contended that the revenue relief requested in Application No. 55456 is the minimum required to offset increased wage costs.

Greyhound's charter-party coach charges are not subject to the Commission's tariff filing requirements. Such unregulated charges were increased by 6.2 percent on November 1, 1974 which coincides with the effective date of the increased wage costs incurred by Greyhound and sought to be offset in this proceeding.

The Las Vegas-Tonopah-Reno Stage Line, Inc., Orange Belt Stages, Inc., Peerless Stages, Inc., and Vaca Valley Bus Lines join with Greyhound in seeking increases in express rates applicable to interline shipments which move, in part, over routes of Greyhound and, in part, over routes of one or more of the aforementioned passenger stage corporations. The same level of express rates is sought for interline shipments as for local express service.

The application states that the sought rate increase will have only a small effect on the revenues of these carriers. The precise amount of additional revenue which will accrue to applicants from the increase in interline express rates can only be determined by special and detailed studies. Based upon preliminary information, however, applicants believe such total increase in gross revenue will not exceed \$2,700 annually.

In view of the minimal nature of the increased revenues to be derived by all applicants from an increase in interline express rates, applicants other than Greyhound request that, pursuant to Rule 87 of its Rules of Practice and Procedure, the Commission waive the informational requirements of Rule 23 to the extent such information is not included herein. This same request was previously granted in Decision No. 83777 under like circumstances.

Staff Proposal

The Commission's Transportation Division staff presented a report (Exhibit 7) on the results of its investigation and analysis of Greyhound's request for authority to increase its passenger fares and express rates. The staff first reviewed the basis for the November 1, 1974 labor cost increases and proceeded to audit Greyhound's allocations (Exhibit 2) of the applicable wage increases to its various labor expense accounts. Table 1 of the staff's exhibit presents a comparison of the computations by Greyhound and the staff which are in general agreement.

The staff next extended Greyhound's adjusted intrastate results of operations established in Decision No. 83777 for the historical base rate year to reflect known increases and adjustments for reductions in local services which became effective during the rate year ending October 31, 1975. The results of this particular phase of the staff study are summarized in Table 6 of Exhibit 7 and are predicated upon Greyhound's constructed rate year. On this basis, the staff would appear to agree with Greyhound's proposed 2.5 percent increase in their total California intrastate revenues in order to restore earnings to the level previously found justified. However, the staff takes issue with Greyhound's failure to fully annualize increases in revenues which become effective during the projected rate year. A comparison of Greyhound's estimated adjusted results of operations for the test rate year with a like development by the staff, reflecting a 2.5 percent increase in Greyhound's existing passenger fares and express rates, follows:

TABLE 5

Comparison of Intrastate Results of Operations  
At Proposed Fares and Rates as Adjusted by  
Greyhound and Annualized by the Staff for the  
Rate Year Ending October 31, 1975  
(000)

<u>Account</u>	<u>Greyhound</u>	<u>Staff</u>
Revenues (present fares & rates)	(Table 2)	(Exhibit 7)
Passenger	\$42,996	\$43,306
Express	6,341	6,394
	<u>\$49,337</u>	<u>\$49,700</u>
Difference (staff)	363	-
Total Revenues	\$54,576	\$54,576
Adjustment	-	363
	<u>\$54,576</u>	<u>\$54,939</u>
Proposed Increases	(Table 3)	(Exhibit 8)
Passenger Revenues - 2-1/2%	\$ 923	\$ 930
Express Rates - 2-1/2%	159	160
Total Adjusted Revenues for Projected Rate Year	\$55,658	\$56,029
Operating Expenses		
Total Expenses	\$50,693	\$50,693
Commissions - Passenger	39	40
Express	16	16
Total Adjusted Expenses	<u>\$50,748</u>	<u>\$50,749</u>
Operating Income	\$ 4,910	\$ 5,280
Difference: Greyhound Adjustments v. Staff Annualization	370	-
	<u>\$ 5,280</u>	<u>\$ 5,280</u>

The staff contends that whenever Greyhound's intrastate operating revenues for a historical base rate year are increased during a subsequent test year, the projection of such revenue increases over the future test period must be on a fully annualized basis. Failure to do so, the staff notes, understates the required adjustments in Greyhound's historical revenues when employed as a basis for measuring future revenue requirements. This understatement, in turn, results in an overstatement of the additional amount of

revenues required to offset a given increase in adjusted operating expenses. In Exhibit 8 (Table 5 hereof) staff calculations indicate that Greyhound has overstated its additional cost offset revenue requirements by some \$370,000. The annualization procedures advocated by the staff for determining Greyhound's future cost offset revenue requirements are well established and recognized by this Commission and should be employed for purposes of this proceeding.

Pursuant to its investigation and analysis the staff concludes that a 1.99 percent overall increase or \$986,790 in additional annual revenues would be necessary to offset the additional labor expenses incurred by Greyhound's California intrastate operations. Accordingly, the staff recommends that Greyhound be authorized to increase its California intrastate passenger fares and express rates by 1.99 percent in a manner described in the carrier's second alternative tariff proposal.

#### Discussion

In granting Greyhound a 7.8 percent increase in passenger fares and express rates the Commission in Decision No. 83777 found:

- "11. Within the context of the current economy an operating ratio of 95.0 percent (after taxes) and a 10.5 percent rate of return have been shown not to be unreasonable for Greyhound's California intrastate operations."

In Application No. 55456 Greyhound seeks to obtain additional revenues sufficient to offset November 1, 1974 labor cost increases and maintain earnings at a level that will continue to yield a 10.5 percent rate of return. To afford Greyhound an opportunity to earn this overall rate of return it was first necessary to authorize a level of intercity passenger fares and express rates that would generate earnings sufficient to yield a 19.1 percent rate of return in order to offset operating losses from the local commute and suburban services. The estimated

operating ratios and rates of return anticipated for Greyhound's California intrastate operations under present and proposed fares and rates and adjusted expenses for the projected rate year ending October 31, 1975 are:

TABLE 6

	<u>Rate Year Ending October 31, 1975</u>			
	<u>Fares and Express Rates</u>			
<u>Operating Ratios</u>	<u>Historical</u>	<u>Rate Year</u>	<u>Proposed</u>	
<u>And Rates of</u>	<u>12-31-74</u>	<u>10-31-75</u>	<u>Proposal 1</u>	<u>Proposal 2</u>
<u>Return</u>	<u>(D.83777)</u>	<u>(D.83777)</u>	<u>(In Percents)</u>	
<u>Operating Ratios</u>				
Total	95.0	95.8	94.8	94.8
Intercity	90.9	92.9	92.0	91.9
Local	114.9	120.1	118.4	118.7
<u>Rates of Return</u>				
Total	10.5	8.3	10.52	10.51
Intercity	19.1	14.9	17.15	17.19
Local	-	-	-	-

Table 6 indicates that Greyhound's intercity passenger and express traffic subsidizes the carrier's local commute and suburban services. While Greyhound aggressively seeks to maintain an overall rate of return of 10.5 percent for its total intrastate operations, the rate of return for Greyhound's intercity service will deteriorate from a high of 19.1 percent to a projected 17 percent under the carrier's sought revenue relief. Similarly, the operating ratio for local suburban and commute service is expected to rise from 114.9 percent to 118 percent under the sought relief. This apparent contradictory trend in related earning ratios was not specifically explained or otherwise justified by Greyhound.

It is clear that Greyhound's present California intrastate earnings are being strongly influenced by the carrier's procedures for recording changes in revenues and expenses resulting from reductions in certain local services. For example, in Table 2, it will be noted that Greyhound has reduced operating revenues by \$3,957,000 and expenses by \$4,672,000 due to reductions in local services. The reduction in operating expenses exceeds the estimated loss in revenues by some \$715,000 which, in turn, offsets all but \$375,000 of the \$1,090,000 increase in labor costs which Greyhound contends it has incurred.

No operating cost allocation studies were submitted to back up Greyhound's accounting procedures for reflecting revenue losses and reallocation or termination of various operating expenses due to reductions in local services. In view of the aforementioned infirmities the sought increases in Greyhound's intercity passenger fares and express rates should not be authorized. However, the staff's recommended increase of approximately 2 percent in Greyhound's local suburban and commute fares should be adopted to help alleviate the existing operating deficits experienced on this segment of Greyhound's intrastate operations. The California intrastate adjusted results of operations under this recommended 2 percent adjustment in local fares for a fully annualized rate year are:



TABLE 7  
California Adjusted Intrastate Results of Operations  
At Recommended Increased Local Fares for  
Fully Annualized Rate Year Ending 10-31-75  
(000)

Account Item	Intrastate Operations		
	Total	Intercity	Local
<u>Operating Revenues</u>			
Total Base Rate Year (Exh. 7)	\$54,939	\$48,969	\$ 5,970
Passenger Base Year	47,254	37,586	9,668
Reduction in Service	(3,949)	-	(3,949)
Adj. Passenger Revenue	43,306	37,586	5,720
Local Service Increase - 2%	94	-	94
Total Revenues - 10-31-75	55,033	48,969	6,064
<u>Operating Expenses</u>			
Total Base Rate Year (Exh. 7)	50,721	42,741	7,980
Commission on Increase	4	-	4
Total Operating Exp. - 10-31-75	50,725	42,741	7,984
Operating Income	4,308	6,228	(1,920)
Income Taxes	1,792	2,591	( 799)
Net Income	2,516	3,638	(1,122)
Adjusted Rate Base	27,284	23,247	4,037
Operating Ratio After Taxes	95.4%	92.6%	118.5%
Rate of Return	9.2%	15.6%	-

(Red Figure)

An operating ratio of 96.0 percent (after taxes) and a 7 percent rate of return were found not to be unreasonable for Greyhound's total California intrastate operations in Greyhound Lines, Inc. (1969) 69 CPUC 761, 769. This finding was later affirmed in 1969 and 1972 in Greyhound Lines, Inc., 70 CPUC 429 and 74 CPUC 276. An operating ratio of 96.6 percent (after taxes) and a 6.8 percent rate of return were found not to be unreasonable in Greyhound Lines, Inc. (1973) 75 CPUC 336. In this proceeding additional revenue relief is sought to maintain Greyhound's intrastate earnings at a level sufficient to yield a 10.5 percent rate of return found to be not unreasonable as of November 26, 1974 in Decision No. 83777.

In Table 7 the adoption of the recommended increase in local fares is shown to generate an operating ratio of 95.4 percent (after taxes) and a 9.2 percent rate of return for Greyhound's total California intrastate operations. These adjusted results of operations clearly fall within the zone of reasonableness previously found justified by the Commission under similar financial circumstances confronting Greyhound.

Findings

1. Greyhound's present California intrastate passenger fares and express rates were established December 16, 1974 pursuant to Decision No. 83777 dated November 26, 1974 in Application No. 54653. In granting authority for a 7.8 percent increase in such fares and rates the Commission found:

"11. Within the context of the current economy an operating ratio of 95.0 percent (after taxes) and a 10.5 percent rate of return have been shown not to be unreasonable for Greyhound's California intrastate operations."

2. Greyhound has incurred further labor cost increases which became effective retroactively from November 1, 1974.

3. To offset the labor cost increases assignable to the California intrastate operations and maintain a 10.5 percent rate of return Greyhound estimates that \$1,090,000 in additional annual revenues are required.

4. Greyhound and the Commission staff each brought forward the carrier's California adjusted intrastate results of operations established in Decision No. 83777 for the historical base rate year ending December 31, 1974, to reflect subsequent changes in Greyhound's intrastate results of operations for a projected test rate year ending October 31, 1975.

5. The methods employed by Greyhound and the staff to develop their respective adjusted results of intrastate operations for the rate year ending October 31, 1975 differ. The staff's adjusted operating revenues and expenses are fully annualized. Greyhound's like computations, on the other hand, reflect actual revenues and annualized expenses.

6. Adjusted operating revenues and expenses should, in the first instance, be projected on a comparable basis over the selected test period. The annualization procedures employed by the staff have long been recognized as proper for ratemaking purposes by the Commission and should be adhered to in this proceeding.

7. Greyhound has endeavored to show that when its total adjusted results of intrastate operations are brought forward to reflect current revenues and expenses for the test year ending October 31, 1975, such adjusted operations reflect an operating ratio of 95.8 percent and earnings sufficient to yield an 8.3 percent rate of return.

8. Greyhound proposes to obtain \$1,090,000 in additional labor cost offset revenues by first canceling its current round-trip intercity discount fares which will generate an estimated \$760,000. For the balance of the sought revenues, it is proposed that \$140,000 be obtained from a 3 percent increase in local commute and suburban fares and \$190,000 be secured by a like 3 percent upward adjustment in intercity express rates.

9. Greyhound has demonstrated that under its proposed increase in passenger fares and express rates, its total adjusted intrastate results of operations will reflect an operating ratio of 94.8 percent and earnings sufficient to yield a 10.5 percent rate of return.

10. The staff has demonstrated that Greyhound's failure to fully annualize its adjusted operating results over the projected rate year overstates the additional sought revenues by approximately \$370,000.

11. Pursuant to its investigation and analysis the staff concludes that a 1.99 percent increase in Greyhound's annual intrastate revenues, amounting to approximately \$986,790 per year, should be authorized to offset November 1, 1974 labor cost increases. Accordingly, the staff recommends that authority be granted to increase Greyhound's California intrastate passenger fares and express rates by 1.99 percent.

12. The operating ratio of 95.0 percent and the 10.5 percent rate of return found to be not unreasonable for Greyhound's total California intrastate operations in Decision No. 83777 were premised upon:

1. The authority to establish a level of passenger fares and express rates for Greyhound's intercity operations that would generate revenues sufficient to reflect an operating ratio of 90.9 percent and earnings that would yield a 19.1 percent rate of return.
2. The operating losses incurred from carrier's local commute and suburban services to be offset by earnings from its intercity passenger and express operations.

13. While Greyhound shows that its total California intrastate operations will maintain 10.5 percent rate of return under its sought revenue relief, Table 6 of the opinion hereof also demonstrates that operating ratios and rates of return for Greyhound's intercity and local services will deteriorate. This inverse relationship between Greyhound's projected earnings for its total California earnings and the earnings expected from the major individual sources of such total earnings reflects Greyhound's allocations

for changes in revenues, expenses, and rate base due to reductions in local services.

14. Greyhound's adjusted results of operations reflect a reduction in expenses of \$4,672,000 and a loss of revenues of \$3,957,000 due to the curtailment of various local services. This reduction in expenses exceeds the projected loss in revenues by some \$715,000 which, in turn, offsets all but \$375,000 of the sought additional labor cost offset revenues of \$1,090,000.

15. Greyhound did not submit any physical plant investigation data or operating cost allocation studies to back up its accounting adjustments for reductions in various local operations. In the absence of such essential evidence plus the potential additional savings that may be realized from future reductions in local services, the sought increases in intercity passenger fares and express rates have not been shown to be totally justified by transportation conditions.

16. The staff's recommendations should be adopted only to the extent that an increase of 2 percent in Greyhound's local commute and suburban fares be authorized thereby alleviating the current operating deficits incurred from this segment of the carrier's California intrastate operations.

17. The 2 percent increase in Greyhound's local commute and suburban fares recommended herein have been shown to be justified by transportation conditions and will generate an estimated \$94,000 in additional annual revenues.

18. The alternative relief found justified herein will enable Greyhound's total California intrastate adjusted results of operations to reflect an operating ratio of 95.4 percent (after taxes) and earnings sufficient to yield a 9.2 percent rate of return.

19. An operating ratio of 96.0 percent (after taxes) and a 7 percent rate of return were found not to be unreasonable for Greyhound's total California intrastate operations in Greyhound Lines, Inc. (1969) 69 CPUC 761, 769; and affirmed in 1969 and 1972 in Greyhound Lines, Inc., 70 CPUC 429 and 74 CPUC 276. An operating ratio of 96.6 percent (after taxes) and a 6.8 percent rate of return were found not to be unreasonable in Greyhound Lines, Inc. (1973) 75 CPUC 336. In Decision No. 83777 dated November 26, 1974 in Application No. 54653, an operating ratio of 95.0 percent (after taxes) and a rate of return of 10.5 percent were found not to be unreasonable.

20. Within the context of the current economy and the transportation conditions currently surrounding Greyhound's total California intrastate operations an operating ratio of 95.4 percent (after taxes) and a 9.2 percent rate of return are clearly within a zone of reasonableness for the transportation services involved.

#### Conclusions

1. Greyhound should be authorized to increase its ten-ride, twenty-ride, and one-way single-ride local commute and suburban fares established by Decision No. 83777 by 2 percent.

2. Greyhound should be authorized to publish the resulting increased passenger fares on five days' notice to the Commission and the public.

3. Pending the reissuance of passenger tariffs containing fares on a point-to-point basis, Greyhound should be authorized to place in effect the increases authorized herein by use of conversion tables as requested. This tariff relief should expire with January 31, 1976.

4. Authority to depart from the long- and short-haul provisions of Section 461.5 of the Public Utilities Code to establish the increased fares and express rates should be granted.

5. To the extent not authorized herein, the relief sought in Application No. 55456 should be denied.

O R D E R

IT IS ORDERED that:

1. Greyhound Lines, Inc. (Greyhound Lines - Western Division) is hereby authorized to establish an increase of 2 percent in its California intrastate ten-ride, twenty-ride, and one-way single-ride local commute and suburban passenger fares. When computing the increased fares authorized herein, Greyhound's present minimum one-way fare of 60 cents shall remain unchanged and the rule for the disposition of fractions shall apply subject to the following provisions:

Passenger Fares: Increased fares to be adjusted to the nearest cent, except in areas where exact fares are required increased fares shall be adjusted to the nearest 0 or 5 cents (2.50 cents being considered nearest to the next higher amount ending in 0 or 5 cents).

2. Pending establishment of the specific fares authorized in paragraph 1 hereof, Greyhound Lines, Inc. is authorized to make effective increases in passenger fares published on a point-to-point basis by means of appropriate conversion tables, providing that the resulting increased fares do not exceed the fares authorized in paragraph 1 hereof, and that tariffs containing such fares are republished by January 31, 1976 to eliminate the use of the conversion tables.

3. Tariff publications authorized to be made as a result of this order may be made effective on not less than five days' notice to the Commission and the public.

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

5. In addition to the required posting and filing of tariffs, Greyhound Lines, Inc. shall give notice to the public by posting in its buses 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.

6. Greyhound Lines, Inc., in establishing and maintaining the fares and express rates authorized hereinabove, is hereby authorized to depart from the provisions of Section 461.5 of the Public Utilities Code to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorization; such outstanding authorization is hereby modified only to the extent necessary to comply with this order; and schedules containing the rates published under this authority shall make reference to the prior orders authorizing long- and short-haul departures and to this order.



7. To the extent not specifically authorized herein the increases in passenger fares and express rates sought in Application No. 55456 are denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 29th  
day of JULY, 1975.

William Lyons President  
Vernon L. Stinson  
W. C. ...  
Robert ... Commissioners

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