

Decision No. 85825

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREYHOUND LINES, INC. for an order authorizing a statewide increase in intrastate passenger fares and express rates and GREYHOUND LINES, INC., 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. 56073
(Filed November 17, 1975)

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 interstate express rates.

Application No. 55456
(Order Granting Rehearing
Decision No. 84954, dated
September 30, 1975)

W. L. McCracken, Attorney at Law, for Greyhound Lines, Inc., et al., for applicants.
William J. Jennings, Attorney at Law, for the Commission staff.

INTERIM OPINION

Greyhound Lines, Inc. (Greyhound) is a wholly owned subsidiary of the Greyhound Corporation. Greyhound, through its Western Division, transports passengers, baggage, and express in 26 western states. In California it performs mainline intercity passenger and express service generally statewide, transporting both

intrastate and interstate traffic. Greyhound also provides local commute and suburban services.^{1/} In addition to its passenger stage and express operations Greyhound also conducts a statewide Class A charter-party carrier service.

In Application No. 56073 Greyhound seeks authority for a two-step increase in its passenger fares and local and interline express rates. In order to partially offset known labor cost increases experienced since October 31, 1974, a first-step increase of 9 percent is proposed. Following implementation of this cost offset increase and the time required to develop background information, Greyhound seeks a second-step increase sufficient to provide a return on common equity of approximately 14 percent which assertedly is equivalent to an 11.5 percent rate of return on depreciated rate base. The Order Granting Rehearing issued in Decision No. 84954 (Application No. 55456) was consolidated for hearing with Application No. 56073.

Public hearings concerning the 9 percent first-step increase proposed in Application No. 56073 were held before Examiner Gagnon on February 19 and 20, 1976 at San Francisco. On the latter date the first phase of the application was submitted for decision. Evidence was presented by Greyhound and the Commission staff. No one appeared in opposition to the sought relief. The receipt of evidence pertaining to the second-step increase proposed in Application No. 56073, together with the Order Granting Rehearing issued in Application No. 55456, was deferred to an adjourned series of hearings to be scheduled in this proceeding.

1/ The commute and suburban 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.

Present Fares and Rates

The present level of Greyhound's mainline passenger fares and local and interline express rates were established December 16, 1974 pursuant to Decision No. 83777 issued November 26, 1974 in Application No. 54563. The existing ten-ride, twenty-ride, and one-way single ride local commute and suburban fares were established August 13, 1975 pursuant to Decision No. 84717 dated July 29, 1975 in Application No. 55456. In this latter proceeding Greyhound sought a labor cost offset increase sufficient to yield a 10.5 percent rate of return previously found justified in Decision No. 83777. However, in lieu of this requested relief, a lesser amount of increase was authorized.

The increase in fares granted by Decision No. 84717 was designed to afford Greyhound's California intrastate operations an opportunity to experience an operating ratio of 95.4 percent (after taxes) and earnings sufficient to yield a 9.2 percent rate of return.^{2/} Pending further hearing in this proceeding, the proposed first-step increase of 9 percent will assertedly restore Greyhound's California intrastate earnings to a level sufficient to yield a rate of return of approximately 10.5 percent.

Labor Cost Increases

A collective bargaining agreement with the Amalgamated Transit Union covering Greyhound's drivers, station personnel, and office workers was negotiated for a three-year period commencing November 1, 1974 with resultant annual increases in wages and allied payroll expenses then estimated to be \$1,090,000 per year. A comparison

^{2/} The authority granted by Decision No. 84717 is the subject of Greyhound's subsequent petition for rehearing which was granted by Decision No. 84954 in Application No. 55456. The rehearing is to determine a reasonable rate of return. It will be considered in the second phase of this application.

of the weighted average level of wage rates for representative employee classifications effective as of December 1974 and for a projected rate year ending June 30, 1977 are:

TABLE I

Comparison of Weighted Average Level of Wage Rates
For Selected Employee Classifications

<u>Employee Classifications</u>	<u>Hourly Wage Rates</u>		<u>% Increase</u>
	<u>12-31-74</u>	<u>6-30-77</u>	
Mechanics	\$ 6.5055	\$ 8.2222	26.388
	5.2308	6.133	17.248
Lubrication	5.1767	5.9662	15.251
	3.902	4.5814	17.412
Washing & Cleaning	5.2261	6.1013	16.747
	3.8449	4.4532	15.821
Drivers: Mainline	.21926	.24738	12.825
Local	5.4543	6.148	12.718
Station	5.0719	6.1138	20.543
Office	832.72	992.63	19.203

(Source: Exhibit 3, Appendix A-2, Sheet 3 of 3)

Greyhound's labor costs are approximately 65 percent of its total operating expenses and drivers' wages constitutes the greatest portion of such costs. Table I indicates that drivers' wages have increased approximately 12.8 percent. For example, under the terms of the labor agreement a cost of living increase of 7.6967 percent in basic wage rates became effective November 1, 1975. When the 1975 second-year contract wage increases are combined with this cost of living adjustment resulting labor cost increases ranging between 9.6 percent and 12.6 percent were incurred by Greyhound. Corresponding wage increases were also given to Greyhound's maintenance employees, supervisory, and other noncontract employee classifications.

Accumulated annual labor cost increases as of June 30, 1977,
a period of 2 years and 8 months into the existing three-year labor

agreement, is estimated to be slightly more than \$5,700,000 excluding the cost of living adjustment expected to become effective November 1, 1976. The 2 percent increase in local fares previously authorized by Decision No. 84717 provided additional revenues sufficient to offset only \$94,000 of an estimated \$1,090,000 increase in labor costs effective as of November 1, 1974 and reflected in the aforementioned total accumulated labor cost increases. Greyhound's proposed first-step increase of 9 percent will generate an estimated \$3,964,000 in additional cost offset revenues.

Cost Offset Proposal

The Assistant to the Vice President-Accounting (Comptroller) for Greyhound's Western Division presented a series of financial statements pertaining to Greyhound's California intrastate results of operations (Exhibit 3). The historical rate year ending December 31, 1974 was employed as a basis for the comptroller's statements of projected results of operation. The historical base rate year results of operations are:

TABLE 2

Adjusted Intrastate Results of
Operations for the Historical Rate Ending 12-31-74

(Dollars in Thousands)

	<u>California Intrastate</u>		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
Passenger	\$40,500	\$33,083	\$ 7,417
Charter	2,599	2,599	-
Express	5,688	5,688	-
Other	1,358	1,161	197
Total Operating Revenues	\$50,145	\$42,531	\$ 7,614
<u>Operating Expenses</u>			
Equip. Maint. & Garage	\$ 6,133	\$ 4,661	\$ 1,472
Transportation	19,489	13,829	5,660
Station	8,967	7,592	1,375
Traffic & Advertising	1,243	1,108	135
Insurance & Safety	1,565	1,307	258
Admin. & General	6,680	4,981	1,699
Depreciation	1,731	1,524	207
Oper. Taxes & Licenses	3,543	2,737	806
Operating Rents	(24)	(48)	24
Total Operating Expenses	\$49,327	\$37,691	\$11,636
Operating Income	\$ 818	\$ 4,840	\$ (4,022)
Fed. & State Income Tax	327	1,936	(1,609)
Net Income After Taxes	\$ 491	\$ 2,904	\$ (2,413)
Rate Base	\$23,781	\$20,657	\$ 3,124
Operating Ratio After Taxes	99.0%	93.2%	131.7%
Rate of Return	2.1%	14.1%	-

(Red Figure)

The separation and allocation of revenues and expenses from Greyhound's system operations to its California state and intrastate operations are based upon procedures prescribed in the "California Separations Manual".^{3/} The results of operations for the historical

^{3/} Decision No. 78354 dated February 22, 1971 in Case No. 9168.

rate year summarized in Table 2 were brought forward to reflect subsequent changes in revenues and expenses for the test rate year ending June 30, 1977 based upon present fares, rates, and expenses. A summary of the comptroller's calculations is:

TABLE 3

Adjusted Intrastate Results of Operations for
the Rate Year Ending June 30, 1977 at Present
Fares and Rates

(Dollars in Thousands)

	California Intrastate		
	Total	Intercity	Local
Operating Rev. (Table 2)	\$50,145	\$42,531	\$7,614
Intrastate Increases:			
Passenger: 7/1/74 (9.00%)	1,484	1,222	262
12/16/74 (7.80%)	2,668	2,198	470
8/13/75 (2.00%)	121	-	121
Express: 7/1/74 (9.00%)	244	244	-
12/16/74 (7.80%)	444	444	-
Charter: 9/15/74 (10.30%)	182	182	-
11/1/74 (6.30%)	144	144	-
9/1/75 (11.24%)	329	329	-
Total Adjusted Oper. Rev.	\$55,761	\$47,294	\$8,467
Operating Expenses (Table 2)	\$49,327	\$37,691	\$11,636
Increases:			
Commissions			
Passenger	189	151	38
Express	75	75	-
Charter	41	41	-
Wage Incr.	4,627	3,469	1,158
Pension Incr.	475	357	118
Health & Welfare	253	187	66
Fed. Soc. Sec. Taxes	258	193	65
Cal. Unempl. Tax	112	84	28
Adjusted Oper. Expenses	\$55,357	\$42,248	\$13,109
Operating Income	\$404	\$5,046	\$(4,642)
Income Taxes	162	2,018	(1,857)
Net Income After Taxes	\$242	\$3,028	\$(2,785)
Oper. Ratio After Taxes	99.6%	93.6%	132.9%
Rate of Return	1.0%	14.7%	-

(Red Figure)

The comptroller explained that all operating revenues shown in Table 3 were annualized for increases granted during the historical period through the rate year. Operating expenses were adjusted for known increases only which were primarily wages and allied payroll expenses. Pension costs were computed by applying the appropriate pension rates to increased wages as well as providing for additional funding requirements which became mandatory under the new labor agreement. The increase in federal social security taxes reflects the effect of raising taxable wages from a maximum of \$13,200 to \$15,300. California unemployment taxes were adjusted to account for the increase of the taxable base from \$4,200 to \$7,000. Added commission expense reflects the increase in revenues. The total increase shown in Table 3 for wages, pension, health and welfare, federal social security taxes, and California unemployment taxes amount to \$5,725,000.

Table 3 also shows that Greyhound expects its California intrastate operations to experience an operating ratio of 99.6 percent and a 1 percent rate of return under present fares and express rates and current expenses. Greyhound's local commute and suburban operations are expected to incur a net operating deficit of \$2,785,000 under present rates (operating ratio 132.9 percent). The operating deficit of Greyhound's local service continues to be absorbed by the carrier's mainline intercity service.

Two procedures were employed by Greyhound to demonstrate its expected adjusted intrastate results of operations for the test rate year ending June 30, 1977 at the proposed 9 percent increase. In Exhibit H attached to Application No. 56073 Greyhound's results of operations for the 1974 historical rate year, adjusted to reflect known changes in revenues and expenses as of June 30, 1977 were further modified to show the effect of the proposed 9 percent increase. A summary of Exhibit H follows:

TABLE 4

Adjusted Intrastate Results of Operations for
the Rate Year Ending June 30, 1977 at Proposed
First-Step Increase of 9 Percent

(Dollars in Thousands)

	California Intrastate		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
At Present Fares	\$55,769	\$47,190	\$ 8,579
Proposed Pass. Increase 9.00%	3,391	2,785	606
Proposed Express Incr. 9.00%	573	573	-
Projected Oper. Revenues	<u>\$59,733</u>	<u>\$50,548</u>	<u>\$ 9,185</u>
<u>Operating Expenses</u>			
At Present Fares	\$55,379	\$42,271	\$13,108
Increase in Commissions			
Passenger	150	123	27
Express	62	62	-
Projected Oper. Expenses	<u>\$55,591</u>	<u>\$42,456</u>	<u>\$13,135</u>
<u>Operating Income</u>	\$ 4,142	\$ 8,092	\$(3,950)
Income Taxes	1,657	3,237	(1,580)
Income After Taxes	<u>\$ 2,485</u>	<u>\$ 4,855</u>	<u>\$(2,370)</u>
Operating Ratios After Taxes	95.8%	90.4%	125.8%
Rate of Return	10.4%	23.2%	-

(Red Figure)

When Greyhound's 1974 results of operations are brought forward to a rate year ending June 30, 1977 at the proposed 9 percent increase, Table 4 indicates earnings will be sufficient to yield a 10.4 percent rate of return which is about the same as previously authorized (10.5 percent) by Decision No. 83777. To counter any allegation that Greyhound's 1974 operating results may no longer be representative of its current level of operations for ratemaking purposes, a second method was employed to show the impact of the sought increase. Under this procedure Greyhound's adjusted results of operations for the test year ending June 30, 1977 (Table 3) were further updated to reflect traffic trend statistical data for a

12-month period ending September 30, 1975. The percentage differential between certain traffic data experienced in the 1974 historical rate year and that recorded for the 12-month period ending September 30, 1975 was first determined. A summary of such calculations is:

TABLE 5

Percentage Differential Between Designated Traffic
Trend Data Experienced by Greyhound in 1974 and
the 12-Month Period Ending September 30, 1975

<u>Traffic Flow Data</u>	<u>Total California Intrastate</u>			
	<u>System</u>	<u>Calif.</u>	<u>Intercity</u>	<u>Local</u>
	(In Percent)			
Bus Miles	(7.811)	(9.010)	(7.259)	(24.960)
Passenger Miles (in 1,000's)	(11.316)	(14.907)	(13.264)	(38.637)
Charter Passengers	1.248	(2.814)	1.562	-
No. of Express Packages	(3.746)	(3.746)	(3.746)	-

() Reduction

From Table 5 the conclusion may be drawn that Greyhound's volume of California intrastate passenger and express traffic has materially declined since 1974.^{4/} The traffic trend factors shown in Table 5 were employed as a basis for further modifying the 1974 historical adjusted results of operations which had previously been brought forward to the June 30, 1977 test year (Table 3). The results of such further adjustments are:

^{4/} Greyhound's director of traffic testified that applicant has experienced an overall traffic decline of approximately 11 percent for the year 1975 which is similar to the nationwide experience of all passenger bus transportation.

TABLE 6

Adjusted Results of Intrastate Operations for the Rate Year
Ending June 30, 1977 at Present Fares and Rates Modified
To Reflect Trend of Traffic for 12-Month Period Ending
September 30, 1975

(Dollars in Thousands)

	California Intrastate		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
Before Trending (Table 3)	\$55,761	\$47,294	\$ 8,467
Trending Adjustments:			
Passenger	(8,037)	(4,842)	(3,195)
Charter	51	51	-
Express	(239)	(239)	-
Total Revenues Adj. for Trending	\$47,536	\$42,264	\$ 5,272
<u>Operating Expenses</u>			
Before Trending	\$55,357	\$42,248	\$13,109
Trending Adjustments:			
Maintenance	(577)	(276)	(301)
Transportation	(2,434)	(999)	(1,435)
Station	(1,652)	(1,086)	(566)
Insurance & Safety	(127)	(72)	(55)
Admin. & Gen.	(631)	(310)	(321)
Operating Taxes	(312)	(161)	(151)
Total Oper. Expenses Adj. for Trending	\$49,624	\$39,344	\$10,280
<u>Operating Income</u>	\$ (2,088)	\$ 2,920	\$ (5,008)
Income Taxes	(835)	1,168	(2,003)
Net Income After Taxes	\$ (1,253)	\$ 1,752	\$ (3,005)
Oper. Ratio After Taxes	102.6%	95.9%	157.00%
Rate of Return	-	8.5%	-

(Red Figure)

While Greyhound's intrastate results of operations were initially shown (Table 3) to be at a relative breakeven point at present fares, rates, and current expenses, an operating ratio of 102.6 percent (Table 6) or a net overall operating deficit is now expected due to current downward trends in traffic. In fact, Greyhound anticipates its intrastate results of operations to be less

favorable than that experienced for the 1974 historical rate year if the sought relief is not granted and the current turndown in its volume of traffic continues. Greyhound's adjusted results of operations under the proposed increase and 1975 traffic trend data are:

TABLE 7

Adjusted Results of Operations for Rate Year
Ending June 30, 1977 at Proposed 9 Percent Increase
and Traffic Volume Trends as of September 30, 1975

(Dollars in Thousands)

	<u>California Intrastate</u>		
	<u>Total</u>	<u>Intercity</u>	<u>Local</u>
<u>Operating Revenues</u>			
At Present Fares (Table 6)	\$47,536	\$42,264	\$ 5,272
Proposed Pass. Increase 9%	3,306	2,849	457
Proposed Express Incr. 9%	552	552	-
Projected Oper. Revenues	<u>\$51,394</u>	<u>\$45,665</u>	<u>\$ 5,729</u>
<u>Operating Expenses</u>			
At Present Fares (Table 6)	\$49,624	\$39,344	\$10,280
Increase in Commission			
Passenger	146	126	20
Express	60	60	-
Projected Oper. Expense	<u>\$49,830</u>	<u>\$39,530</u>	<u>\$10,300</u>
<u>Operating Income</u>	\$ 1,564	\$ 6,135	\$(4,571)
Income Taxes	626	2,454	(1,828)
Income After Taxes	<u>\$ 938</u>	<u>\$ 3,681</u>	<u>\$(2,743)</u>
Operating Ratios After Taxes	98.2%	91.9%	147.9%
Rate of Return	3.9%	17.8%	-

(Red Figure)

If Greyhound's projected turndown in traffic volume fully materializes Table 7 indicates the sought first-step increase will generate about \$3,858,000 in additional cost offset revenues resulting in an operating ratio of 98.2 percent and a 3.9 percent rate of return. These alternative projected results of operations are significantly less favorable than those previously found justified in Decision No. 83777.

Proposed Fares and Rates

Greyhound also requests authority to incorporate the proposed first-step increase of 9 percent into its present passenger fare and express rate structures as follows:

1. Passenger Fares - Mainline Mileage Scale.

Present and Proposed Mileage Scale
For One-Way Mainline Passenger Fares

		Rate Per Mile		
<u>Miles</u>				
<u>Over</u>	<u>But Not Over</u>	<u>Present</u> <u>(Per D.83777)</u>	<u>Proposed</u> <u>(9% Increase)</u>	<u>With No Fare Less</u> <u>Than Fare For</u>
0	25	.0648	.0706	
25	50	.0605	.0659	25 Miles
50	100	.0571	.0622	50 "
100	150	.0521	.0568	100 "
150	200	.0499	.0544	150 "
200	250	.0485	.0529	200 "
250	300	.0477	.0520	250 "
300	400	.0465	.0507	300 "
400	-	.0455	.0496	400 "
Minimum Fare		\$0.60	\$0.60	
Round Trip		190%	190%	

(a) Previously authorized method for constructing fares adopted by Decision No. 83777 to be continued.

(b) Mainline fare increases to be made effective by use of appropriate conversion tables to be published in a special interim tariff supplement.

2. Passenger Fares - Commute and Suburban Areas.

Present 10-ride, 20-ride, and one-way single fares to be increased by 9 percent.

(a) No change in minimum fares.

(b) Methods for constructing fares adopted by Decisions Nos. 83777 and 84717 to be continued.

Comparison of Present and Proposed
Selected Adult One-Way and 20-Ride
Commutation Fares

<u>From San Francisco To</u>	<u>Adult One-Way Fares</u>		<u>20-Ride Commute Fares</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
<u>Peninsula</u>				
Bayshore	\$.60	\$.60	\$11.29	\$12.31
Burlingame	1.35	1.45	17.31	18.87
San Mateo	1.50	1.65	18.17	19.81
Redwood City	1.65	1.80	19.86	21.65
Menlo Park	1.75	1.90	21.56	23.50
Palo Alto	2.10	2.30	23.27	25.36
Mt. View	2.35	2.55	25.88	28.21
Sunnyvale	2.70	2.95	27.63	30.12
Santa Clara	2.80	3.05	29.34	31.98
San Jose	2.95	3.20	31.04	33.83
<u>Ocean - Ocean Skyline</u>				
Westlake (Skyline)	\$.90	\$1.00	\$14.76	\$16.09
Sharp Park	1.10	1.20	15.62	17.03
Moss Beach	1.55	1.70	18.17	19.81
Half Moon Bay	1.65	1.80	19.86	21.65
<u>Contra Costa</u>				
Orinda	\$1.50	\$1.65	\$20.17	\$21.99
(1)	.80	.85	12.99	14.16
Lafayette	1.60	1.75	23.68	25.81
(1)	.95	1.05	16.52	18.01
Walnut Creek	1.70	1.85	25.34	27.62
(1)	1.15	1.25	19.07	20.79
Pleasant Hill	1.90	2.05	27.09	29.53
(1)	1.40	1.55	20.72	22.58
Concord	2.20	2.40	28.66	31.24
(1)	1.55	1.70	22.53	24.56

(1) From: Oakland

3. Express Rates.

- (a) Local interdivision and interline rates to be increased by 9 percent adjusted so that all rates end in 0 or 5.
- (b) Package daily shipment rates to be constructed from increased express rates.

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

It is anticipated that the sought increase will have only a minimal effect upon the gross revenues of these four interline 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 available information, however, applicants believe that the proposed increase in interline express rates will increase the gross revenues of the aforementioned four interline carriers by less than \$10,209 annually.

In view of the modest nature of the additional revenues to be generated by the proposed 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 Decisions Nos. 84717 and 83777 under like circumstances.

Staff Proposals

The staff of the Commission's Transportation Division has reviewed Greyhound's work papers supporting the sought first-step increase. Pursuant to its review and analysis the Transportation Division staff concludes (Exhibit 4):

1. The procedures employed by Greyhound for computing increased wage costs were proper.

2. Greyhound's separation and allocation of its interstate and California intrastate revenues and expenses were basically consistent with those set forth in the "California Separations Manual" established by Decision No. 78354 in Case No. 9168.
3. The staff concurs with Greyhound's efforts to reflect in its adjusted results of operation for the test year ending June 30, 1977 statistical traffic trend data for the 12 months ending September 30, 1975.^{5/}
4. No increase in minimum fares beyond present minimum fare of 60 cents.

The Transportation Division staff considers Greyhound's request for a 9 percent labor cost offset increase to be not unreasonable. It is suggested that such increase be calculated to the nearest one cent, except in areas where exact fares are required increased fares should 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).

The staff of the Commission's Finance and Accounts Division urges that any interim increase granted as a result of this proceeding be made subject to a condition that "at an appropriate time the costs for which such interim is granted be determined and matched against the revenue increases authorized. Any excess or deficiency in the amount collected as interim fare or rate relief should be considered as a deferred item to be treated as an amortizable revenue or expense in the final general fare proceeding."

This staff proposal is admittedly experimental. It suggests that every applicant granted interim authority to increase its fares and/or rates be required to establish a form of reserve accounting of

^{5/} Efforts to employ 1975 preliminary statistical traffic data to further adjust the 1974 historical rate year are considered to be generally inconclusive. Greyhound's actual 1975 results of operation are to be used in the second phase of this proceeding.

the actual revenues generated by such interim relief pending a subsequent determination of the actual increase in expenses contemplated to be offset. This proposal rests upon the supposition that the Commission may grant authority for an interim fare or rate increase in advance of a specific showing and finding that such increase has been fully justified.

In the instant proceeding Greyhound seeks interim authority for some \$3,964,000 in additional revenues as a partial offset of labor cost increases amounting to more than \$5,000,000. The additional revenues generated by any interim relief granted at this time will be made known and considered in the final disposition of Application No. 56073. The preliminary reserve accounting procedures suggested by the staff do not appear to be necessary.

Public Transit Systems

The 1975 Legislature added the following Sections 730.3 and 730.5 to the Public Utilities Code:

"730.3 The Commission shall notify every state and local public agency and corporation operating a passenger transit system before approving any rate increase for the passenger transportation services of any railroad or passenger stage corporation within the territory served by such public transit system, and shall request that the state or local public agency or corporation operating a passenger transit system prepare an analysis of the effect of the proposed rate increase on overall transportation problems within the territory served by such passenger transit system. The commission shall include in its order approving any rate increase for

passenger transportation services specific and detailed written consideration of the points raised in each analysis received by the commission pursuant to this section."

"730.5 In setting rates for the passenger transportation services of any railroad or passenger stage corporation, the commission shall include in its order approving any increase in such rates specific and detailed written consideration of the effect of such rates on the acceptance of such transportation services by the public and how much public acceptance will affect public transit systems as proposed in required transportation plans prepared pursuant to Chapter 2.5 (commencing with Section 65080) of Title 7 of the Government Code."

In accordance with the aforementioned statutory mandate 119 known municipal transit districts and 23 public transit planning agencies established throughout California were notified by the Commission on February 20, 1976 that Greyhound Lines, Inc. had filed Application No. 56073 requesting authority to increase its California intrastate fares initially by 9 percent.

This notice requested that the various public transit agencies submit their comments and analysis of Greyhound's sought first-step fare increase within 30 days in order to be considered by the Commission. As of April 1, 1976 only four public transit authorities responded to the notice. From their comments it does not appear that the sought first-step increase of 9 percent will have any significant effect upon the public transit systems in California.

No one appeared in opposition to Greyhound's proposed labor cost offset fare increase. No consideration was given to potential diminution or diversion of traffic in the event the sought fare increase is granted and none is contemplated.

Findings

1. Greyhound's present California intrastate mainline passenger fares and express rates (local and interline) were established December 16, 1974 pursuant to Decision No. 83777 issued December 26, 1974 in Application No. 54563. Its current ten-ride, twenty-ride, and one-way single ride local commute and suburban fares were established August 13, 1975 pursuant to Decision No. 84717 dated July 29, 1975 in Application No. 55456. In the former decision 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. In Application No. 56073 authority is sought for a two-step increase in Greyhound's California intrastate passenger fares and express rates. Initially Greyhound seeks a labor cost offset increase of 9 percent. Subsequent to the implementation of the contemplated interim relief and the time required to develop information necessary to fully evaluate and determine Greyhound's current level of earnings, a second-step adjustment in fares and express rates is proposed to provide earnings sufficient to yield a return on common equity of approximately 14 percent and a 11.5 percent rate of return on depreciated rate base.

3. Greyhound has incurred annual labor cost increases, effective retroactively from November 1, 1974, which have not been fully reflected in its current level of fares and express rates.

4. The accumulated annual labor cost increases incurred by Greyhound as of the test year ending June 30, 1977, a period of two years and eight months into the three-year labor agreement, amounts to \$5,700,000. Of this amount, Greyhound estimates its proposed first-step increase of 9 percent will generate additional revenues sufficient to offset \$3,964,000.

5. Greyhound's adjusted California intrastate results of operations for a historical rate year ending December 31, 1974 were brought forward to reflect the results of operations for a test rate year ending June 30, 1977.

6. The adjusted intrastate results of operations as developed by Greyhound for the test year ending June 30, 1977 at the present levels of fares and express rates reflect an operating ratio of 99.6 percent (after taxes) and a 1.0 percent rate of return. The local commute and suburban operations are expected to incur a net operating deficit of \$2,785,000 (operating ratio 132.9 percent).

7. At the proposed 9 percent first-step increase Greyhound initially indicates its adjusted intrastate results of operations for the test year ending June 30, 1977 will reflect an operating ratio of 95.8 percent (after taxes) and a 10.4 percent rate of return; thereby restoring its California intrastate earnings to a level previously found justified in Decision No. 83777.

8. The use of preliminary 1975 statistical traffic trend data to further modify Greyhound's projected results of operations for the 1974 historical base rate year is inconclusive and not sufficiently indicative of Greyhound's actual or anticipated California intrastate results of operations for the test year.

9. Greyhound's proposed first-step increase of 9 percent has been shown to be justified. A like increase in the interline express rates of the other applicants has also been shown to be justified by transportation conditions.

10. Greyhound's first-step labor cost offset fare increase of 9 percent will not have any significant effect upon public transit systems or transportation planning agencies established in California.

11. Greyhound should establish a disposition of fractions rule as suggested by the Commission's staff as a basis for reflecting authorized percentage increases in its passenger fares and express rates.

12. The staff's suggestion that Greyhound be directed to establish an unspecified form of reserve accounting of the actual revenues generated by the proposed first-step increase in fares and express rates has not been shown, in this particular instance, to be necessary.

Conclusions

1. The authority requested in Application No. 56073 for a first-step increase of 9 percent in California intrastate passenger fares and express rates should be granted.

2. Applicants' request for a labor cost offset increase in fares and express rates of 9 percent is in conformity with the statutory provisions set forth in Sections 730.3 and 730.5 of the Public Utilities Code.

3. Applicants should be authorized to publish the resulting increased passenger fares and express rates on five days' notice to the Commission and the public.

4. The requested waiver of Rule 23 of the Commission's Rules of Practice and Procedure by all applicants other than Greyhound relative to the increase authorized in interline express rates should be granted.

5. 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 a conversion table as requested. This tariff relief should expire eight months after the effective date of the order herein.

6. Authority to depart from the long- and short-haul provisions of Section 460 of the Public Utilities Code to establish the increased fares and express rates should be granted.

7. To the extent not authorized herein, the interim relief sought in Application No. 56073 should be denied.

INTERIM ORDER

IT IS ORDERED that:

1. Greyhound Lines, Inc. (Greyhound Lines - West Division) is hereby authorized to establish the interim increase in its California intrastate passenger fares and express rates proposed in Application No. 56073 to the extent such increase in fares and rates does not exceed 9 percent and minimum fares remain unchanged. When computing the increased fares and rates authorized herein, Greyhound's proposed rule for the disposition of fractions shall apply subject to the following modifications:

- a. Passenger Fares: Increased fares to be adjusted to the nearest cent as proposed by Greyhound, 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).
- b. Express Rates: Increased rates to 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 within eight months after the effective date of this order to eliminate the use of the aforementioned conversion tables.

3. Greyhound Lines, Inc. and the other applicants named in Application No. 56073 are authorized to increase their interline express rates by 9 percent as set forth in paragraph 1. The requested waiver of Rule 23 of the Commission's Rules of Practice and Procedure by all applicants other than Greyhound Lines, Inc. is granted.

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

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

6. 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.

7. Applicants, in establishing and maintaining the fares and express rates authorized hereinabove, are hereby authorized to depart from the provisions of Section 460 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.

8. To the extent not specifically authorized herein the interim increase in passenger fares and express rates sought in Application No. 56073 is denied.

9. Further hearing shall be held for the receipt of evidence relative to the final disposition of Applications Nos. 56073 and 55456.

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

Dated at San Francisco, California, this 18th
day of MAY, 1976.

Jabstain
W. R.

[Signature]
President
William J. Lyons
Veron L. Shugart
Robert Bateman
Commissioners