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Decision No. 86496

ORIGINAL

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. 55282 (Filed October 31, 1974; amended March 4, 1976)

Ivan McWhinney, Arlo D. Poe, Attorneys at Law, and Graham & James, by Boris H. Lakusta, Attorney at Law, for applicant.
William J. Jennings, Attorney at Law, M. J. Debarr, and F. W. Foley, for the Commission staff.

O P I N I O N

Duly noticed public hearing was held in this application July 6, 1976 before Examiner Thompson at San Francisco. There were no protests.

Airportransit of California, doing business as Airporter, is a passenger stage corporation engaged in the transportation of passengers, baggage, and express between the San Francisco International Airport, on the one hand, and San Francisco, Oakland, Berkeley, Burlingame, and various cities southerly therefrom to San Jose, on the other hand, and between the San Jose Municipal Airport and the San Francisco International Airport and intermediate points.

In its original application filed October 31, 1974 applicant sought a 15-cent increase in all of its passenger fares. On June 10, 1975 the Commission entered Decision No. 84524, an interim order authorizing an immediate 10-cent increase in all fares. The authority was predicated upon a staff analysis which was received as Exhibit 1. The decision pointed out that there were a number of areas of disagreement between the applicant and the staff regarding accounting adjustments for intercompany transactions and regarding cost estimating methods; for the purposes of considering the justification of an interim increase in fares all of those issues were resolved against applicant.

Public hearing was scheduled in the original application for October 29, 1975, but the matter was temporarily removed from the calendar when applicant notified the Commission that it intended to amend its application. The amended application was filed February 9, 1976 by which applicant seeks an increase of 20 cents in all fares in addition to the interim increases authorized by Decision No. 84524.

In support of its fare proposal applicant relies on the exhibits attached to its application. Staff presented an exhibit prepared by the Division of Finance and Accounts and an exhibit prepared by the Transportation Division. In brief, applicant estimates an operating loss under the present interim fares. Staff estimates a marginal profit (99.6 percent operating ratio) under the present interim fares. Operating results for a future rate year under the proposed increased fares estimated by applicant and by the staff are set forth below.

Estimates of the Results of Operation
Under Applicant's Proposed Fares for
A Future Rate Year

	Applicant	Staff
Revenues		
Regular Route	$2,802,872	$2,878,800
Charter & Other	140,887	151,100
Total	$2,943,759	$3,029,900
Operating Expenses		
Depreciation Expense	$ 67,051	$ 18,660
Depreciation Adjustment	18,580	-
Other Operating Expenses	2,562,500	2,641,820
Total	$2,648,131	$2,660,480
Net Operating Revenue	$ 295,628	$ 369,420
Income Taxes	153,727	166,240
Net Operating Income	$ 141,901	$ 203,180
Rate Base	N.A.	$ 428,300
Rate of Return		47.44%
Operating Ratio	95.18%	93.3 %

Staff and applicant disagreed regarding many of the estimates of revenues and expenses, but mainly concerning depreciation expense. The depreciation adjustment of $18,580 shown on applicant's estimate represents the amount of capital gain on the sale of two of applicant's buses. Showing it as a debit to depreciation expense is an accounting error. Applicant's estimate of depreciation expense reflects service lives of eight years and a salvage value of 10 percent for equipment acquired before 1973, and nine-year service lives with a 15 percent salvage value on equipment acquired thereafter.

Staff developed the depreciation reserve as though the applicant used "book" depreciation until September 30, 1974, then shifted to straight line remaining life depreciation based on 9-year service lives and 15 percent salvage value, then at June 1, 1976 changed to straight line remaining life depreciation based on 12-year lives and 32 percent salvage value. In addition, it deducted from total annual depreciation expense the amortization of capital gains on the sale of revenue equipment in accordance with the method prescribed by the Commission in Application of Airportransit of California (1972) 74 CPUC 19, 29. It also eliminated the "depreciation adjustment" of $18,580 estimated by applicant. The transportation engineer made his estimate of 12-year service lives and 32 percent salvage value from statistical analysis of recorded data regarding 13 buses that were sold by applicant during the period 1966 through 1974. He had made no inquiry regarding the circumstances involved in the sales. He had no knowledge regarding service lives of similar equipment operated by other carriers other than he had read a report showing that the average age of Greyhound Lines' intercity buses is about 6½ years. He was aware from newspaper articles that the recent market price for used buses is high which he attributes to slow deliveries of new buses by manufacturers because of high demand resulting from recent proliferation of transit districts.

For reasons which will be related later, applicant did not have a company witness who had knowledge of the circumstances of the sales of the buses. Applicant's accountant testified that he had heard company executives state that four of the buses went to Alaska and that they were surprised by the extraordinarily high price they received.

The matter of the treatment of depreciation expense and of capital gains on the sale of revenue equipment by applicant is discussed at length in Airportransit, supra. The staff in that proceeding advocated service lives of 12 years on revenue equipment with salvage values of 28 percent; applicant contended for 8-year service lives with salvage values of 10 percent. The order of the Commission in that decision reads in part:

> "4. Airportransit shall, for regulatory purposes, revise and reflect upon its books for accruals to the depreciation reserve for buses 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 buses used in its northern California operations the amount of 15 percent of the cost of said buses 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 buses in determining net operating income over a period approximately equal to the estimated service lives of contemporary buses added or acquired as replacements."

The order was signed August 29, 1972 and became effective September 18, 1972. It has become final. No further orders have been entered by the Commission modifying the directives set forth in that order. The provisions of that order quoted above are clear and precise. The evidence shows that applicant has not complied with those provisions in that it has not, as of September 18, 1972, made accruals to the depreciation reserve for its buses used in its northern California operations in accordance with that order, nor has it reflected on its accounting records the amortization of capital gains on the sale of such buses subsequent to September 18, 1972 over the period of nine years in accordance with that order. We will require applicant to make the appropriate entries in its books of account.

Staff's estimate of salvage value of 32 percent following 12 years on purchased new bus equipment reflects recent and current market prices of used buses. It is recognized, however, that the high prices in the market place are the result of extraordinary demand for bus equipment. How long that market will continue is a matter of conjecture. As was pointed out in Airportransit, supra, a basic depreciation objective is that of permitting the utility to recover in rates from the ratepayer the original cost of fixed capital (less salvage) over the useful life of the property by means of an equitable plan of charges to operating expenses or clearing accounts. The recovery of almost one-third of original cost is not the usual or ordinary circumstance in the disposal of utility property that has been fully depreciated. We recognized this peculiar circumstance in our prior decision in which we fixed applicant's fares by requiring the amortization of gains and losses from the retirement of buses. We are still of the opinion that this method is the more equitable one in this instance because it permits applicant to recover from its rates, over a reasonable time period, no more and no less than the fixed cost of that property while it was used and useful in the passenger stage service without the necessity of making frequent and radical adjustments to depreciation.

Neither applicant's nor staff's estimates reflect depreciation expense calculated in the manner described above. We need not concern ourselves further in that matter, however, because applicant stated that, rather than become involved in protracted and expensive proceedings that would be required to resolve the differences of all of the estimates made by it and the staff, it will accept the staff's fare proposal of a 15-cent increase in fares between San Francisco and San Francisco International Airport and the requested 20-cent increase in all other fares. It further asserted that, provided the 12-year service lives and 32 percent salvage value included in the staff's estimates of operating results under its fare recommendation would not be considered dispositive of the issue of depreciation, it would stipulate that those estimated results may be considered to be fair and reasonable in the evaluation of the staff's recommended fares.

We do not adopt staff's estimate of service lives or salvage but continue in force the depreciation and amortization methods prescribed in Airportransit. Staff's estimate of operating results by applicant for a future rate year under its fare recommendation are set forth below. Had depreciation expense, with offsetting amortization of capital gains from the retirement of equipment, been calculated in accordance with the principles set forth in Airportransit, the estimated expenses would be somewhat higher. The difference, however, would not be substantial.

Estimate of Operating Results of
Airportransit of California
For a Future Rate Year under Staff's
Recommended Fares

Number of Passengers	2,013,300
Bus Miles Operated	1,543,900
Number of Trips	165,380
Operating Revenues	
Regular Route	$2,780,800
Charter Service	139,000
Baggage Handling	2,100
Advertising & Misc.	10,000
Total Operating Rev.	$2,931,900
Operating Expenses	
Equip. Maint. Expense	$ 223,830
Transportation Exp.	1,082,650
Stat. & Term. Expense	461,580
Traffic Expense	10,550
Insurance & Safety Exp.	142,540
Admin. & General Exp.	283,860
Depreciation Exp.	18,660
Oper. Taxes & Licenses	153,100
Operating Rents	271,080
Taxes on Income	127,820
Total Operating Exp.	$2,775,670
Net Operating Revenue	$ 156,230
Rate Base	$ 428,300
Rate of Return	36.5%
Operating Ratio	94.7%

Findings

1. By its amended application applicant seeks authority to establish, on ten days' notice to the Commission and to the public, increases of 20 cents in its one-way fares.

2. Applicant's operations under present fares will be conducted very close to the break-even point, if not at a loss.

3. The proposed fare increases will provide excessive earnings and they have not been shown to be justified.

4. A 15-cent increase in one-way fares for transportation between San Francisco and San Francisco International Airport, and a 20-cent increase in all other one-way fares, will provide applicant with $298,100 additional gross passenger revenue, or an increase of 12 percent, a net income after taxes of $156,230, for an operating ratio of 94.7 percent, and those increases in passenger fares are justified.

5. By Decision No. 80421 dated August 29, 1972 in Application No. 52828, applicant was ordered as of September 18, 1972 to revise and reflect upon its accounting records depreciation accruals for buses used in its northern California operations based upon nine-year service lives and 15 percent net salvage values, and amortization of gains and losses from future retirement of buses over a period approximately equal to the service lives of contemporary buses added or acquired as replacements.

6. Applicant has not revised its accounting records in accordance with the Commission's order in Decision No. 80421.

7. Market prices of used passenger buses have been unusually high in recent years by reason of extraordinary demands for bus equipment resulting from expansion of public transit supported by state and federal funds. That circumstance has permitted applicant to dispose of retired bus equipment at values approximating 32 percent of original cost after 12 years of operation. Continuation of the high market prices of used bus equipment is not assured.

Conclusions

1. Applicant should be authorized to establish, on not less than ten days' notice, a 15-cent increase in one-way fares for transportation between San Francisco and San Francisco International Airport, and a 20-cent increase in all other one-way fares. In all other respects Application No. 55282, as amended, should be denied.

2. Although proper notice of applicant's proposal to increase fares was provided and notice of hearing was duly posted and published affording all interested persons opportunity to appear, no persons appeared in opposition to the establishment of the proposed increases in fares nor communicated any such opposition to the Commission; and since the continued operation by applicant under its present fares will be marginal or at a loss, the order of the Commission authorizing fare relief should be made effective without delay.

3. Applicant should be required to revise its accounting records as required by Decision No. 80421.

O R D E R

IT IS ORDERED that:

1. Airportransit of California is authorized to establish, in addition to the increases in fares authorized by Decision No. 84524 herein, the following increases in one-way passenger fares between San Francisco International Airport, Oakland International Airport, and San Jose Municipal Airport and points and places on its established routes in northern California:

> Between San Francisco and San Francisco International Airport - 15 cents.
>
> Between all other points on its routes in northern California - 20 cents.

2. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date hereof and on not less than ten days' notice to the Commission and to the public.

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

4. In addition to the required posting and filing of tariffs, applicant 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.

5. Airportransit of California shall comply with the requirements of Ordering Paragraphs 4, 5, and 6 of Decision No. 80421 and in compliance therewith shall make such prescribed revisions in its accounting records as of September 18, 1972.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 13th day of OCTOBER, 1976.

President

William Symons Jr.

Vernon L. Sturgeon

Leonard Ross

Robert Batinovich

Commissioners