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ORIGINALDecision S4 G9 101

SEP 19 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 H. TOURIST, INC., dba CATALINA ISLAND
 CRUISES, a corporation, for an order
 authorizing it to increase rates for
 the transportation of passengers by
 vessel between the Port of Long Beach,
 on the one hand, and, on the other,
 authorized points on Santa Catalina
 Island.

Application 84-01-44
 (Filed January 20, 1984)

Edward J. Hegarty, Attorney at Law, for
 applicant.

John Longley, for the City of Avalon,
 protestant.

Vahak Petrossian, for the Commission staff.

O P I N I O N

Applicant H. Tourist, Inc., doing business as Catalina Island Cruises, seeks authority under Public Utilities (PU) Code Sections 454 and 491 to increase rates for its passenger vessel service between the Port of Los Angeles (San Pedro) or the Port of Long Beach, on the one hand, and authorized points on Santa Catalina Island, on the other hand.

H. Tourist is a California corporation and is a wholly owned subsidiary of the Harbor Tug and Barge Company which is, in turn, a wholly owned subsidiary of Crowley Maritime Corporation. H. Tourist's authority from this Commission to operate as a vessel common carrier of passengers and their baggage (VCC-46) has remained unchanged since 1981.

The last rate increase granted to H. Tourist was authorized by Decision 83-02-032 in February 1983.

The present application was protested in a timely manner by the City of Avalon, the most frequently serviced point on Santa Catalina Island. As a result of the protest, a hearing was held on June 6, 1984 before Administrative Law Judge Colgan in the Commission's Courtroom in Los Angeles.

At the hearing H. Tourist offered the testimony of three witnesses, the City of Avalon offered one, and our staff offered one. The case was submitted at the end of the hearing on the same day.

Request

H. Tourist requests a rate increase approximately 6% over present levels for adult fares which, it claims, will yield a before-income tax operating ratio of 90% for July 1, 1984 through June 30, 1985 and a rate of return after income taxes of 13.9% and an additional \$449,000 in revenue.

The request claims that without the increase net income for the forecasted year ending June 30, 1985 will fall to \$795,000 from its level of \$1,037,000 for the year ending November 30, 1983. H. Tourist states that this income decrease is due to a 5.3% annual increase for crew which is the result of a collective-bargaining agreement; the same increase for nonunion shoreside employees; an 8.5% increase in the portion of payroll for the two parent corporations allocated to H. Tourist; a 216% increase in allocated "occupancy" costs resulting from moving into a new terminal; and a 400% increase in allocated taxes and licenses which reflects a new \$36,000 fee to this Commission under our Resolution M-4731.

H. Tourist's Position

H. Tourist's first witness, Jon Eicholtz, testified about the new terminal building which also has other space to rent and was built by Catalina Landing Associates with H. Tourist in mind as the "anchor tenant". Catalina Landing Associates is a joint venture 50-50 partnership between Crowley Development Corp. (a wholly owned subsidiary of Crowley Maritime Corp.) and Chaskow III Associates, Ltd. (a limited partnership with Chaskow III, Inc., a wholly owned subsidiary of Pankow Development Corp., being the general partner). Eicholtz is an officer of both Pankow and Chaskow III, Inc.

Because of the relationship between H. Tourist and the developers of this facility, Eicholtz took pains to describe why he believed the lease between H. Tourist and Catalina Landing Associates to be an arm's length transaction, pointing out that the rental rate is somewhat less than what is being offered to the public for similar space and the lease gives H. Tourist sole use and control of the adjacent boat basin, 2,500 square feet of space for fuel and storage tanks, and guaranteed availability of parking spaces in the parking facility for H. Tourist passengers.

Tim Mazur, H. Tourist's general manager, testified that the San Pedro facility is adequate, but the old Long Beach facility was very crowded and inadequate. Staff stipulated that the latter building is inadequate. Mazur also testified that there was no other facility available in Long Beach. According to Mazur, the total cost of occupancy was about \$175,000 for each facility in 1983. The application projects the San Pedro cost to stay at \$175,000 in 1984 while the cost for the new Long Beach facility will increase by \$408,000 to \$583,000. This is primarily

due to the difference in rent. In San Pedro, the rent is \$6,500 per month plus 5% of the gross revenue of all vessels (excluding the 50¢ per person "head tax" by the City of Avalon) and 8% of the gross revenue of the gift shop. In Long Beach, rent will be over five times higher--\$34,000 per month plus 5% of all gross revenue including the head tax.

David Stevens, a vice president of the California Division of Crowley Maritime Corp. and a certified public accountant, testified about the financial data for the year ending November 30, 1983 and forecast for the year ending June 30, 1985, set forth in Appendices I and II of the application. According to Stevens, the operating revenue projections for the fiscal year 1984-1985 assume the same passenger count (975,660) as in the base year (December 1, 1982-November 30, 1983). The only changes considered are the expenses for employee salaries, the payroll allocated to the two parent corporations (for such things as Stevens' service to H. Tourist), the increased occupancy costs, and a new user fee of .46% of anticipated gross revenue to the Commission. This amount he estimates at \$36,000. In fact, since the time Stevens' testimony was prepared this Commission issued Resolution M-4731 on May 16, 1984 changing the fee to .9% of anticipated gross revenue. Thus, assuming Stevens' bases are sound, the amount of the fee would not be \$36,000, as he projects, but about \$71,000.

City of Avalon's Position

John Longley, city manager for the City of Avalon, testified for the city council. The City of Avalon contends that the rate increase is not needed at this time because ridership will be going up this year and, thus, H. Tourist will achieve its proposed revenue level without any rate increase. Avalon also claims that a rate increase could decrease ridership thereby producing financial hardship for Avalon's tourist-related business. Avalon offered no proof of these contentions except for one unauthenticated document (Exhibit 9) that purports to show that visitors to Catalina Island increased by 23.5% during the year ending in April 1984.

Staff's Position

Vahak Petrossian, senior transportation engineer for the Commission, testified on behalf of our staff in opposition to the rate increase request. Petrossian submitted and testified about Exhibit 10 which concludes that H. Tourist can achieve its test year revenue projection of \$7,904,000 by retaining its present rate structure if it experiences a .9% (9,000 passengers) increase over the number of passengers carried in the 12 months ending May 31, 1984.

Further, Exhibit 10 projects that H. Tourist will exceed its projected revenue by \$378,000 in its test year if it keeps the same fares. Staff concludes that even without an increase H. Tourist will end its test year (June 30, 1985) with an operating ratio of 85.9% and a 20.5% rate of return on rate base.

Discussion

We agree with H. Tourist and staff that the old Long Beach terminal was inadequate. Further, the terms under which occupancy of the new facility are planned seem reasonable. However, a review of the data presented by the parties indicates that H. Tourist's assumption of a static ridership for the test year ending June 30, 1985 is not reasonable. While it is true, as H. Tourist points out, that passenger count declined in 1982 and 1983, staff's Table 2 to Exhibit 10 which depicts H. Tourist's passenger count by month from January 1979 through May 1984, clearly shows that the six months following the base year (year ending November 30, 1983) have shown a large increase, not a static condition.

Petrossian, relying on more recent data than was available when the application was filed, contends that Southern California's unusually wet weather in 1983 caused the decrease in H. Tourist's patronage that year. He points out that with more favorable weather during the first five months of 1984 H. Tourist enjoyed a 21% increase in passenger count over the same period of 1983. When asked if the very favorable weather in early 1984 might not also be unusual, he replied that it might be and that he took that possibility into account when projecting passenger counts for the first 6 months of 1985 by not relying on the 1984 figures, but instead using the same figure achieved for the similar period in 1982 (discounting 1983 as unusually rainy and therefore not representative). That figure is, in fact, lower than any other recorded January-June figure since 1979.

The other six-month projection made by Petrossian-- for July-December 1984--was derived by calculating the percentage of ridership represented by that six-month period since 1979. He found that the percentages were quite similar in each of those years. He used an average of 1979-1983 to derive the percentages of 38% for January through June and 62% for July through December. Basing his January-through-June 1984 figure on five months of known data, he projected 426,000 passengers for that period. (Estimating about 127,000 passengers for the unrecorded month of June 1984 seems reasonable. There were 123,300 June passengers in the slow 1983.) Then using that figure as 38% of the total annual passenger count, he derived the 62% figure for the remainder of the year as 694,000.

We believe these projections are more reasonable than the no-growth projections of H. Tourist. H. Tourist is advised, however, that it may Petition to Reopen this proceeding at any time within the next 12 months if the growth projections we rely on here do not materialize.

Using these passenger counts, it appears that H. Tourist can achieve an operating ratio of 85.9% and a rate of return on rate base of 20.5% without any rate increase.

PU Code Section 404 does require us to authorize entities affected by Resolution M-4731 to adjust their rates annually in order to collect an amount sufficient to pay the required fee and the costs of its collection. Therefore, H. Tourist does have the right to be reimbursed for this expense. Using staff's estimates for the year ending June 30, 1985, we conclude that this amount will be \$74,538 or about 7¢ per passenger. It is reasonable to round this number up to 10¢ for ease of collection and to account for costs which the collection may incur.

A month after the hearing, on July 10, 1984, H. Tourist filed a tariff to increase its rates under the authority of Resolution M-4731 to cover the cost of the required fee. The tariff increases adult fares by 10%. Since this tariff reasonably reflects the extra costs associated with our required fee, we allowed it to take effect immediately. However, we do not find any further increase to be warranted at this time.

Findings of Fact

1. H. Tourist, Inc. seeks a rate increase to achieve revenue of \$7,904,000 in test year ending June 30, 1985 for its service between Long Beach and San Pedro, on the one hand, and Santa Catalina Island, on the other hand.
2. H. Tourist's expenses in the test year for payroll, occupancy costs at Long Beach, and fees owed to this Commission will increase in the test year over present levels.
3. H. Tourist claims the increased cost of occupancy for its new Long Beach facility is reasonable and its old facility was inadequate. Staff agrees.
4. In projecting revenue for the test year, H. Tourist assumed that passenger count would remain the same as it was in the year ending November 30, 1983. Staff's projection assumes growth.

Conclusions of Law

1. H. Tourist's old facility in Long Beach was inadequate.
2. The new facility in Long Beach is adequate and its cost of occupancy is reasonable.
3. H. Tourist's assumption of no growth for the test year is not reasonable. Staff's assumption is reasonable.
4. H. Tourist may file a Petition to Reopen this proceeding at any time within the next 12 months if the staff growth projections do not materialize.
5. H. Tourist's projected revenue for the test year will be achieved and surpassed with no rate increase.

6. H. Tourist has reasonably adjusted its rates under PU Code Section 404 to cover the fee required by this Commission and the costs of collecting that fee.

ORDER

IT IS ORDERED that:

1. H. Tourist, Inc.'s application for a rate increase is denied.
2. H. Tourist may file a Petition to Reopen this proceeding at any time within the next 12 months if the staff growth projections do not materialize.

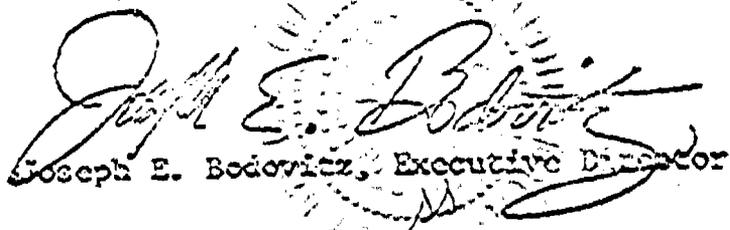
This order becomes effective 30 days from today.

Dated SEP 19 1984, at San Francisco, California.

Commissioner William T. Bagley
being necessarily absent, did
not participate.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director