

ORIGINAL

Decision 84 10 025 OCT 3 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREYHOUND LINES, )  
INC. for an order authorizing )  
an Increase in intrastate )  
passenger fares - 7% statewide )  
and by various percentages on )  
five specific routes. )

Application 84-06-076  
(Filed June 22, 1984,  
amended June 29, 1984)

O P I N I O N

The Greyhound Corporation is a holding company, owning stock and other securities in subsidiary and affiliated corporations. These subsidiary and affiliated companies are grouped for operational and financial purposes. The companies in the transportation group engage in regular route, charter, and tour intercity bus transportation, carrying passengers, baggage, express, mail, and newspapers.

Greyhound Lines, Inc. (Greyhound), one of the wholly-owned subsidiaries in the transportation group, operates regular-route bus service in the 48 contiguous states, Alaska, and the District of Columbia, with extensions into Canada.

Greyhound, through its Western Division, transports passengers, baggage, and express in 26 western states. In California, it performs mainline intercity passenger and express service statewide (PSC-1), transporting both intrastate and interstate traffic. In addition to its passenger stage and express operations, Greyhound conducts a statewide Class A (TCP-12A) charter-party carrier service.

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By this application, as amended, Greyhound seeks authority to increase its intrastate passenger fares by 7%. (All increased fares are to be adjusted where necessary to the nearest 5 cents.) Round-trip fares are to be based on 190% of the increased one-way passenger fares. The original application included requests for additional, more substantial fare increases on five specific routes, but these additional requests were withdrawn by the amendment.

The notification of the fare increase request appeared in the Transportation Calendar on June 27, 1984. There have been no protests or requests for hearings. Applicant has notified counties and cities of its request; its service list is provided in Exhibit F in the application.

Greyhound's last fare increase request was for 15% in Application 83-02-62. The Commission granted 9.25% in Decision (D.) 83-06-062. Greyhound then petitioned that decision to the Interstate Commerce Commission (pursuant to the Federal Bus Regulatory Reform Act of 1982) and was granted an additional 5.75% increase. The 9.25% increase was effective June 21, 1983 and the additional 5.75% on September 9, 1983.

Reason for the Proposed Increase

Greyhound seeks this authority to increase fares to reduce the "fare disparity" between interstate and intrastate

passengers. Greyhound asserts that this disparity could, by federal standards, be regarded as an undue burden on interstate commerce. The federal law establishes such a presumption at 49 U.S.C. 11501(e)(2)(A)(i).

#### Discussion

The Transportation Division staff has performed a review of the application. The following table sets forth the estimated results of operation under present and proposed fares for a test year ending October 31, 1985.

Table 1

|                         | <u>Test Year Ending 10-31-85</u> |                       |
|-------------------------|----------------------------------|-----------------------|
|                         | <u>Present Fares</u>             | <u>Proposed Fares</u> |
| Revenues                | \$96,900,000                     | \$102,012,000         |
| Expenses                | 84,837,000                       | 85,101,000            |
| Operating Income (Loss) |                                  |                       |
| Before Income Tax       | 12,063,000                       | 16,910,000            |
| Estimated Income Tax    | 5,523,000                        | 7,810,000             |
| Operating Income (loss) |                                  |                       |
| After Income Tax        | 6,540,000                        | 9,100,000             |
| Operating Ratio After   |                                  |                       |
| Income Tax (percent)    | 93.2                             | 91.1                  |
| Rate Base-California    |                                  |                       |
| Intrastate              | 62,744,000                       | 62,744,000            |
| Rate of Return on rate  |                                  |                       |
| base                    | 10.4                             | 14.5                  |

As indicated by above Table 1, Greyhound's ability to attract additional investment would be adversely affected under present fares. A 14.5% rate of return for Greyhound is not unreasonable at this time.

As regards Greyhound's argument concerning the relationship between interstate and intrastate fares, Greyhound has supplied Exhibit C in support of its position. The exhibit shows that the intrastate fares are lagging the stated interstate fares and that the 7% intrastate fare increase will reduce the lag.

The Greyhound financial data includes a 4 million dollar annual cost saving for reduced compensation to its drivers, mechanics, ticket vendors and clerks. This cost saving results from collective bargaining agreements between Greyhound and the employee unions.

Calculation Methodology and Commission Standards

We note that Greyhound did not supply expense data fully in compliance with the Commission's allocation manual (Report on Separation and Allocation Procedures for Determining Intrastate Operating Results of Passenger Stage Corporations in California), as adopted by D.78354, 1971.

An example of a failure to present data in conformance with the Commission's procedure is Driver Wage Expense, Account 4220. The manual requires that this expense be calculated based on aggregating actual data from individual operating zones of the company. Instead, Greyhound calculated driver wages in reverse, by working back from their total system costs and allocating a portion to California intrastate service.

Depreciation Expense is another example of a deviation from the allocation manual, as well as from the Commission standard prescribing the life of buses (D.69539). The allocation manual requires a determination by examination of records; the Commission standard requires actual depreciation record-keeping on individual buses. Greyhound elected to estimate depreciation on a system-wide basis and allocate a portion of the system total to intrastate expense in a manner similar to the company's calculation of driver wages. The D.69539 standard for 12-year depreciation expensing of intercity buses was not followed in this computation.

The allocation manual procedures were a product of a joint effort by the Commission staff and Greyhound to develop fair and equitable separation and allocation procedures acceptable to both parties. These procedures were adopted only after serious consideration and a formal order of the Commission. In response to a staff inquiry, Greyhound advised that it believes the Manual should be updated to reflect changes in Greyhound's operations since we adopted it in 1971.

Greyhound should follow the proper procedures to change an established Commission standard such as the allocation manual. Given the technical nature of the subject matter, Greyhound should consult with the Passenger Operations Branch staff and explain

what changes it seeks, and why. The staff will then give its recommendations to the Commission. If these parties agree on the propriety of the suggested changes, the matter may be resolved by ex-parte order. If such agreement does not obtain, Greyhound may of course always file a formal application with the Commission for such consideration. It is important that Greyhound, and all regulated public utilities, follow the applicable costing methodologies established by the Commission, and follow the regular procedures in seeking any changes in them. Regulated entities are not to make unilateral changes in Commission-established standards, methodologies, or procedures; and Greyhound is put on notice to follow the applicable provisions until such time as the Commission may decide to change them in some way(s).

For the purpose of this proceeding, we have used the Greyhound-allocated data. The Greyhound data appears to be reasonable in comparison to recent proceedings, and we are obligated to complete our review of this application to a final decision within the federally-mandated 120-day time limit. Greyhound is, however, placed on notice that it is to follow the Commission's allocation manual and standards when filing for any future fare increase(s).

Findings of Fact

1. Greyhound seeks authority to increase its passenger fares by 7%.

2. The staff recommends that the requested fare increase be granted for the purpose of providing applicant with an opportunity to earn a reasonable rate of return.

3. The requested fare increase will result in additional gross revenue of \$5,112,000 with a rate of return of 14.5%.

4. The requested fare increase is justified.

5. No protests have been received, and a public hearing is not necessary.

6. Greyhound has presented some of its cost data in a manner not in compliance with the established standards and procedures adopted in D.69539 and D.78354.

Conclusions of Law

1. The requested 7% fare increase is justified.

2. Pending the reissuance of passenger tariffs containing fares on a point-to-point basis, applicant should be authorized to place into effect the increases authorized here by use of conversion tables.

3. This authority to use such conversion tables on an interim basis should expire 90 days after the effective date of this order.

4. This order should be effective today in view of the present justification for the fare increase and the federally-mandated 120-day time frame for our decision.

5. Greyhound should be ordered to comply with the applicable data standards and procedures in future fare increase applications.

O R D E R

IT IS ORDERED that:

1. Greyhound Lines, Inc. is authorized to establish the increased fares proposed in Application 84-06-076, as amended.

2. The authority shall expire unless exercised within 90 days after the effective date of this order.

3. In addition to posting and filing tariffs, applicant shall post a printed explanation of its fares in its buses and terminals. The notice shall be posted at least five days before the effective date of the fare changes and shall remain posted for at least 30 days.

4. Applicants are authorized to make effective increases in passenger fares published on a point-to-point basis by means of appropriate conversion tables, providing the tariffs containing such fares are republished within 90 days after the effective date of this order to eliminate the use of conversion tables.



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5. Greyhound shall, in all future fare increase applications, compile and present its data in accordance with the latest edition of the Commission document entitled Report on Separation and Allocation Procedure for Determining Intrastate Operating Results of Passenger Stage Corporations in California, the Commission's depreciation standards, and all other applicable standards then in effect.


6. The application is granted as set forth above.

This order is effective today.

Dated OCT 3 1984, at San Francisco, California.

VICTOR CALVO  
FRISCILLA C. GREW  
DONALD VIAL  
WILLIAM T. BAGLEY  
Commissioners

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

  
Joseph E. Bodovitz, Executive Director

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As indicated by above Table 1, Greyhound's ability to attract additional investment would be adversely affected under present fares. ~~Its rate of return should be above the interest rate for commercial paper (10% 12%) in today's money market.~~ A 14.5% rate of return for Greyhound is not unreasonable at this time.