

ALJ/rr/jt

Decision 83 06 062 JUN 15 1983**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREYHOUND LINES, INC.
for an order authorizing a 15%
statewide increase in intrastate
passenger fares.

Application 83-02-62
(Filed February 28, 1983)

Lat J. Celmins, Attorney at Law, for Greyhound
Lines, Inc., applicant.
Mary McKenzie, Attorney at Law, and Richard
Brozosky, for the Commission staff.

O P I N I O N

By this application Greyhound Lines, Inc. (Greyhound) requests permission to increase its California intrastate passenger fares by 15%. Purposes of the increase, Greyhound asserts, are (1) to recover increased operating costs in order to produce a more reasonable rate of return, and (2) to reduce the disparity between intrastate and interstate rate levels.

The Commission staff objected to the magnitude of the request. The matter was submitted upon the receipt of late-filed Exhibit 6 on May 17, 1983. Duly noticed public hearings were held before Administrative Law Judge (ALJ) John Lemke May 12 and 13, 1983 in San Francisco. No outside protests to the application have been received.

Under Rule 24 of the Commission's Rules of Practice and Procedure, Greyhound served notice of its application on each city and county in California. Notices were also furnished to many municipal transit services and agencies throughout the state.

The following increases in passenger fares are sought:

1. A 15% increase, applicable to all present passenger fares including the minimum passenger fare which is proposed to be \$1 (presently .85¢). San Francisco International Airport/Travis Air Force Base fares are not included.
2. A 15% increase applicable to all 10-ride and 20-ride passenger fares, except Vallejo-Richmond-Oakland-San Francisco and Crocket Junction-Oakland-San Francisco.
3. Round-trip fares to be based on 190% of increased one-way passenger fares.

Greyhound's present passenger fares within California were established by Decision (D.) 82-10-061 dated October 20, 1982 in Application (A.) 82-07-43, effective November 1, 1982.

The increase is designed to provide \$10,361,000 in new revenue and result in a projected rate year operating ratio of 94.5% before taxes and 96.8% after taxes.

The Evidence

Greyhound

Greyhound offered evidence through exhibits and testimony sponsored by two witnesses. Bernard Rotenberg, assistant to the vice president--accounting, sponsored Exhibit 1. Appendix A-1 of his exhibit summarizes results of operations during 1982 of Greyhound's total system, total State of California, and California intrastate passenger, charter, and express business. These results are shown in the following Table 1:

TABLE 1

Operating Statement for the System, Total
State of California and California Intrastate Services
for the Year Ended December 31, 1982

	<u>System</u>	<u>Total State of California</u>	<u>California Intrastate</u>
BUS MILES OPERATED			
<u>OPERATING REVENUES</u>			
Passenger Revenue	\$282,149,416	\$105,972,035	\$ 64,811,951
Charter Revenue	42,332,293	20,850,534	11,774,679
Express Revenue	62,933,626	21,241,987	10,786,194
Other Revenue	5,960,516	2,691,260	1,978,009
Total Operating Revenues	<u>\$393,375,851</u>	<u>\$150,755,816</u>	<u>\$ 89,350,833</u>
<u>OPERATING EXPENSES</u>			
Equip. Maint. & Garage	\$ 43,364,739	\$ 15,813,386	\$ 9,971,288
Transportation	154,228,313	56,300,345	35,336,714
Station	74,572,059	27,893,002	19,654,980
Traffic Solic. & Adv.	17,104,711	6,537,249	3,857,631
Insurance & Safety	11,730,927	4,251,460	2,686,846
Admin. & General	55,607,240	20,406,844	13,406,247
Depreciation	11,246,108	3,904,001	2,495,303
Oper. Taxes & Licenses	24,728,625	8,933,756	5,848,103
Operating Rents (Net)	1,483,953	(98,887)	(198,459)
Total Operating Expenses	<u>\$394,066,675</u>	<u>\$143,941,156</u>	<u>\$ 93,058,653</u>
NET OPERATING REVENUE	\$ (690,824)	\$ 6,814,660	\$ (3,707,820)
Other Income	586,882	-	-
Income Deductions	6,262,084	-	-
Net Income Before Taxes	<u>\$ (6,366,026)</u>	<u>\$ 6,814,660</u>	<u>\$ (3,707,820)</u>
Provision for Income Taxes	<u>\$ (5,011,000)</u>	<u>\$ 2,861,203</u>	<u>\$ (1,556,765)</u>
NET INCOME	<u>\$ (1,355,026)</u>	<u>\$ 3,953,457</u>	<u>\$ (2,151,055)</u>
Ratio - Operating Expenses to Revenues - %	100.2%	95.5%	104.15%
Ratio - Operating Expenses and Income Taxes to Revenue-%	98.9%	97.4%	102.41%

(Red Figure)

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In Appendix A-5, Rotenberg has projected the impact of the proposed rate increase for the rate year ending December 31, 1983. This information is set forth in the following Table 2:

TABLE 2

Statement of Annual Income & Expenses for California
Intrastate Operations Giving Effect to Proposed
Increases in Fares

	<u>Adjusted Year</u>	<u>Proposed Increases</u>	<u>Giving Effect</u>
<u>OPERATING REVENUES</u>			
Passenger Revenue (15% increase)	\$69,073,337	\$10,361,001	\$ 79,434,338
Charter Revenue	11,651,345	-	11,651,345
Express Revenue	11,495,386	-	11,495,386
Other Revenue	1,691,927	-	1,691,927
Total Operating Revenues	<u>\$93,911,995</u>	<u>\$10,361,001</u>	<u>\$104,272,996</u>
<u>OPERATING EXPENSES</u>			
Equip. Maint. & Garage	\$10,389,654	-	\$ 10,389,654
Transportation	36,570,600	-	36,570,600
Station (Passenger Commission Inc.)	20,609,369	\$ 535,457	21,144,826
Traffic Solic. & Adv.	3,975,365	-	3,975,365
Insurance & Safety	2,726,097	-	2,726,097
Admin. & General	14,004,486	-	14,004,486
Depreciation	2,484,016	-	2,484,016
Oper. Taxes & Licenses	6,216,076	-	6,216,076
Operating Rents (Net)	(197,158)	-	(197,158)
Total Operating Expenses	<u>\$96,778,505</u>	<u>\$ 535,457</u>	<u>\$ 97,313,962</u>
NET OPERATING REVENUE	\$(2,866,510)		\$ 6,959,034
Provision for Income Taxes	<u>(1,203,533)</u>		<u>2,921,820</u>
NET INCOME	\$(1,622,977)		\$ 4,037,214
Ratio - Operating Expenses to Revenue - %	103.05%		93.33%
Ratio - Operating Expenses and Income Taxes to Revenue - %	101.77%		96.13%

(Red Figure)

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Finally, Greyhound has estimated its California intrastate operating results for 1983 after applying the increase it requests, adjusted for discontinuation of its Vallejo-Napa-San Francisco commuter service. Appendix 6 (Table 3) portrays this information.

TABLE 3

Statement of Annual Income & Expenses for California
Intrastate Operations Reflecting Exclusion
Vallejo & Napa Commute Operations

	<u>Proposed Year</u>	<u>Vallejo-Napa* Commute</u>	<u>Revised Year</u>
<u>OPERATING REVENUES</u>			
Passenger Revenue	\$ 79,434,338	\$ (502,710)	\$ 78,931,628
Charter Revenue	11,651,345	-	11,651,345
Express Revenue	11,495,386	(6,438)	11,488,948
Other Revenue	1,691,927	-	1,691,927
Total Operating Revenues	<u>\$104,272,996</u>	<u>\$ (509,148)</u>	<u>\$103,763,848</u>
<u>OPERATING EXPENSES</u>			
Equip. Main. & Garage	\$ 10,389,654	\$ (30,421)	\$ 10,359,233
Transportation	36,570,600	(316,096)	36,254,504
Station	21,144,826	(39,533)	21,105,293
Traffic Solic. & Adv.	3,975,365	-	3,975,365
Insurance & Safety	2,726,097	(20,571)	2,705,526
Admin. & General	14,004,486	(50,065)	13,954,421
Depreciation	2,484,016	(33,837)	2,450,179
Oper. Taxes & Licenses	6,216,076	(36,593)	6,179,483
Operating Rents (Net)	(197,158)	-	(197,158)
Total Operating Expenses	<u>\$ 97,313,962</u>	<u>\$ (527,116)</u>	<u>\$ 96,786,846</u>
NET OPERATING REVENUE	\$ 6,959,034		\$ 6,977,002
Provision for Income Taxes	<u>2,921,820</u>		<u>2,929,364</u>
NET INCOME	\$ 4,037,214		\$ 4,047,638
Ratio - Operating Expenses to Revenue - %	93.33%		93.28%
Ratio - Operating Expenses & Income Taxes to Revenue - %	96.13%		96.10%

* The Vallejo-Napa Commute operation exclusion is based on 1982 operating volumes and on cost levels previously allocated to this service. Actual cost figures are substantially higher.

(Red Figure)

Rotenberg believes his results of operations to be conservatively calculated because he gave no consideration to passenger diminution as a result of a rate increase. Using tables set forth in the Report on Separations and Allocation Procedures for Determining Intrastate Operating Results, developed in Case (C.) 9168 and issued in January 1971, he stated diminution should be approximately 13%; and that studies by the United States Government as well as studies performed by his section indicate diminution will be significantly higher. He noted that Appendix A-6 (Table 3) is optimistic in that it expresses the expectation that Greyhound will be allowed to discontinue its Vallejo-Napa-San Francisco commute operation.

Rotenberg included in his cost development a projected wage increase expected to occur during 1983 under contractual obligations with the union representing Greyhound's drivers. There is a cost of living clause in the contract, but since this factor is not known at this time he used the lower of the estimates of the Bank of America and the Wells Fargo Bank and arrived at an increase of 5% for December 1983 over December 1982, or an average increase for the year of 2½%. He also applied an average increase of 2½% for inflation to all other expense items.

In Appendix A-4 Rotenberg presented a pro forma statement of California intrastate operations with adjustments for known increases in revenues and expenses. Under the adjustment for passenger revenue he showed a figure of about \$4.2 million. He

arrived at this figure by annualizing an intrastate rate increase received in November 1982. An indexing technique was employed in developing this calculation.

Rotenberg acknowledged recent decreases in the Consumer Price Index and that driver's wages were adjusted downward in response to that change.

Staff

Erik Juul sponsored Exhibit 2. He testified that for the purposes of this proceeding and due to the time frame imposed on the Commission because of the Federal Bus Regulatory Reform Act of 1982 (Bus Act), the staff has accepted Greyhound's separations and allocations calculations.

With the exception of the 8% intrastate passenger fare and express increases, and Greyhound's inflation estimate, which he excluded, Juul has accepted Greyhound's results of operations. Juul developed his increased intrastate passenger and express figures by use of a month-to-month calculation. His method produces higher revenues than Greyhound's. (\$69,228,063 versus \$69,073,337). The results of his development are shown in Table 4.

TABLE 4

Line	Reference	Description (1)	1982 (2)	1983-Present Fares (3)	1983-Recommended Fares (4)
<u>Operating Revenues</u>					
1		Passenger	\$64,811,951	\$69,228,063	\$ 75,804,729
2		Vallejo-Napa Commute	416,608	443,577	485,717
3		SanTrans	6,007,231	6,173,878	6,173,878
4		Regular Charter	5,060,859	5,060,859	5,060,859
5		Express	10,786,194	11,500,401	11,500,401
6		Other Revenue	1,691,927	1,691,927	1,691,927
7		Contra Costa County- Bart Farebox	289,981	-0-	-0-
8		Contra Costa County- Bart Subsidy	286,002	-0-	-0-
9	L1 thru 8	Total Operating Revenue	\$89,350,833	\$94,098,705	\$100,717,511
<u>Operating Expenses</u>					
10		Equipment Maint. & Garage	\$ 9,971,288	\$ 9,961,624	\$ 9,961,624
11		Transportation	35,336,714	35,306,329	35,306,329
12		Station	19,654,980	19,962,905	20,475,640
13		Traffic Solicitation & Advertising	3,857,631	3,857,631	3,857,631
14		Insurance & Safety	2,686,846	2,680,140	2,680,140
15		Adm. & General	13,406,247	13,391,084	13,391,084
16		Depreciation	2,495,303	2,484,016	2,484,016
17		Operating Taxes & Licenses	5,848,103	5,998,853	5,998,853
18		Operating Rents (Net)	(198,459)	(198,884)	(198,884)
19	L10 thru 18	Total Operating Expenses	\$93,058,651	\$93,444,468	\$93,957,203
20		Net Income Before Taxes	(\$3,707,820)	\$654,237	\$6,760,308
21		Provisions for Income Taxes	(\$1,556,765)	274,688	2,838,383
22		Net Income After Taxes	(\$2,151,055)	379,549	3,921,925
23		Operating Ratio (Before Taxes)	104.2%	99.3%	93.3%
24		Operating Ratio (After Taxes)	102.4%	99.6%	96.1%

(Red Figure)

Discussion

The differences in Greyhound's request and the staff's recommendation are attributable to (1) the inclusion by Greyhound and exclusion by staff of expenses for inflation during 1983, and (2) methods employed for determining current annual revenue levels.

The inflation expense was calculated by the staff in late-filed Exhibit 6 as \$3,343,250. Greyhound, by letter dated May 17, 1983, stated that the Exhibit 6 calculation included supervisory wage increases based not on inflation expectations but on company policy. But this letter is not evidence, and Greyhound did not ask to cross-examine on Exhibit 6.

The inflation factor of 2½% applied by Greyhound is based upon Bank of America and Wells Fargo Bank estimates. But Greyhound's witness acknowledged that there had been a recent reduction in the Consumer Price Index (CPI) with a consequent slight downward adjustment in drivers' wages. We will disallow the inflation expenses included by Greyhound because they are speculative, and because inflation as measured by the CPI, has shown a downward trend.

The staff development of Greyhound's 1983 estimated California intrastate revenues is more reliable than Greyhound's. It is based on passenger and express revenues actually received during the first 10 months of 1982. This revenue was increased by 8%; actual November and December revenues were then added. The Greyhound estimate is based on a less accurate indexing calculation. The more accurate revenue measurement of the staff will be adopted.

One further adjustment requires discussion. Greyhound's estimate of Vallejo-Napa commuter revenue shown in Appendix A-6 of Exhibit 1 is \$502,710. That amount was deleted from projected 1983 revenue on the assumption that Greyhound would be authorized to discontinue this commuter service in a separate proceeding (A.83-01-46). However, its own revenue estimate presented in the

discontinuance proceeding is \$335,833. The expense figure calculated for the Vallejo commuter service is calculated by Greyhound in Exhibit 1 as \$527,116; whereas expenses were calculated in the discontinuance proceeding at \$611,147. Revenues and expenses for Vallejo presented in this general increase proceeding were determined on an allocation basis. In the interest of consistency and accuracy we will apply the more precisely developed costs and revenues presented by Greyhound in the discontinuance proceeding for the purposes of our adopted results of operations, set forth below in Table 5:

TABLE 5

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<u>Line</u>	<u>Reference</u>	<u>Description</u> <u>(1)</u>	<u>1982⁽¹⁾</u> <u>(2)</u>	<u>1983 Present Fares</u> <u>(3)</u>	<u>1983-Recommended Fares</u> <u>(4) 9.25% increase</u>
<u>Operating Revenues</u>					
1		Passenger	\$64,011,951	\$69,228,063	x1.0925 \$ 75,631,659
2		Vallejo-Napa Commute	416,600	0	0
3		SamTrans	6,007,231	6,173,878	6,173,878
4		Regular Charter	5,060,859	5,060,859	5,060,859
5		Express	10,786,194	11,500,401	11,500,401
6		Other Revenue	1,691,927	1,691,927	1,691,927
7		Contra Costa County- Bart Farebox	209,981	0	0
8		Contra Costa County- Bart Subsidy	286,082	0	0
9	L1 thru 8	Total Operating Revenue	\$89,350,833	\$93,655,128	\$100,058,724
<u>Operating Expenses</u>					
10		Equipment Maint. & Garage	\$ 9,971,288	\$ 9,961,624	\$ 9,961,624
11		Transportation	35,336,714	35,306,329	35,306,329
12		Station	19,654,980	19,962,905	20,475,640
13		Traffic Solicitation & Advertising	3,857,631	3,857,631	3,857,631
14		Insurance & Safety	2,686,046	2,680,140	2,680,140
15		Adm. & General	13,406,247	13,391,084	13,391,084
16		Depreciation	2,495,303	2,484,016	2,484,016
17		Operating Taxes & Licenses	5,848,103	5,998,853	5,998,853
18		Operating Rents (Net)	(198,459)	(198,804)	(198,804)
19	L10 thru 18	Total Operating Expenses	\$93,058,653	\$93,443,778	\$ 93,956,513

(Red Figure)

TABLE 5
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Line	Reference	Description (1)	1982 ^(a) (2)	1983- <u>Present Fares</u> (3)	1983- <u>Recommended Fares</u> (4) 9.25% increase
19.1	Per ALJ Leuke	Vallejo-Napa Commute Expenses	(Not Applicable)	\$ 611,147	\$ 611,147
19.2	L19 - L19.1	Total Operating Expenses (without Vallejo-Napa Commute)	\$93,058,653	\$ 92,832,631	\$ 93,345,366
20	L9 - L19.2	Net Income Before Taxes	(\$ 3,707,820)	822,497	6,713,358
21	L20 x (.41986)	Provisions for Income Taxes	(\$ 1,556,765)	345,334	2,818,670
22	L20 - L21	Net Income After Taxes	(\$ 2,151,055)	477,163	3,894,688
23	L19.2 ÷ L9	Operating Ratio (Before Taxes)	104.2%	99.1%	93.3%
24	L19.2 + L21 ÷ L9	Operating Ratio (After Taxes)	102.4%	99.5%	96.1%

(a) Based on Greyhound's allocations.

(Red Figure)

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Both Greyhound and the staff recommended increases in fares which reflect cost/revenue relationships (operating ratios) of about 93.3. This was reasonable for the purposes of Greyhound's California intrastate operations based on the economic circumstances surrounding its last increase (D.82-10-061, October 1982). No evidence was proffered that those circumstances were significantly different from those which presently exist. In order to achieve a year end cost/revenue relationship of 93.3, fare increases of 9.25% are necessary, as shown in our adopted results of operations.

Dale Jensen is Greyhound's regional director of service development. He sponsored Exhibits 3 and 4, which indicate that certain of Greyhound's interstate fares between points in California range from 45% to 80% higher than the comparable intrastate fares.

The purpose of this evidence is to establish a record for possible later presentation to the Interstate Commerce Commission. Greyhound alleges that the Bus Act creates a rebuttable presumption in favor of carriers that lower comparable intrastate fares impose an unreasonable burden upon a carrier's interstate commerce. Greyhound states that, rather than requesting only a 15% rate increase, it could, under the standards of the Bus Act, request a 40% or greater increase.

In his Exhibit 2, Juul presented interstate fares applicable between San Francisco and 27 cities located in other states throughout the country, ranging from \$65 to \$99. On a cost-per-mile basis, these are less than rates for travel between many points in California. Jensen testified that the fares portrayed by Juul are "excursion" fares, not cost based, offered only between certain limited points in order to meet unregulated airline competition. In any event, Jensen considers a comparison of a fare between San Francisco and Chicago with an intrastate fare between Redding and Los Angeles to be invalid.

We do not believe it is necessary for us to make findings in connection with this line of evidence. We will base our decision concerning Greyhound's request upon the evidence before us relating to its current costs and revenues, and on what we consider to be a reasonable operating ratio for Greyhound's California intrastate operations at this time. We can comment, however, that the fare comparisons in Exhibits 3 and 4, while purportedly representative of Greyhound's California structure, are only 27 in number. We do not believe this limited number should be used as a basis for finding that Greyhound's entire statewide intrastate fare structure is below its interstate level.

Findings of Fact

1. Greyhound's present California intrastate passenger fares were established November 1, 1982 by D.82-10-061.
2. Greyhound has incurred cost increases in the intervening period which have not been fully reflected in its current level of fares.

3. Greyhound's results of operations for 1982 reflect before and after income tax operating ratios of 104.2 and 102.4, respectively, in connection with its California intrastate passenger service.

4. Greyhound estimates 104.65 and 102.70 pre-tax and after-tax operating ratios, respectively, for these operations by year-end 1983 at present fares. Staff estimates 99.3 and 99.6 operating ratios for the same period at present rates.

5. Staff's estimate of Greyhound's fares during 1983 is calculated on revenues actually received during 1982. It is more accurate than the indexing method used by Greyhound for this purpose.

6. Greyhound included inflation costs in calculating its estimated expenses during 1983. The staff excluded these inflation estimates. The CPI has recently shown a downward turn, causing slight reductions in drivers' wages.

7. Greyhound's more precisely determined revenue and expense figures for its Vallejo-San Francisco commuter service, presented in A.83-01-46, are more appropriate for purposes of estimating results of operations during 1983.

8. Both Greyhound and the staff recommend increases which will reflect an operating ratio of approximately 93.3 at year-end 1983. An operating ratio of 93.3 was the basis for granting Greyhound's last intrastate passenger fare increase in November 1982.

9. In order to achieve a year-end operating ratio of 93.3, an immediate increase in Greyhound's fares of 9.25% is necessary, based upon our adopted results of operations shown in Table 5.

Conclusions of Law

1. Greyhound should be authorized to increase California intrastate passenger fares by 9.25% and to publish the increases on five days' notice to the Commission and the public.

2. Pending the reissuance of passenger tariffs containing fares on a point-to-point basis, Greyhound should be authorized to place into effect the increases authorized herein by use of conversion tables. The authority on an interim basis to use such conversion tables should expire 90 days after the effective date of this order.

3. Long- and short-haul relief from the provisions of Public Utilities Code (PU) § 460 necessary to establish the increased passenger fares and express rates should be authorized.

4. This decision should be effective today since an immediate need for rate relief has been demonstrated.

O R D E R

IT IS ORDERED that:

1. Greyhound Lines, Inc. (Greyhound) is authorized to establish increases in its California intrastate passenger fares, to the extent these increases in fares and rates do not exceed 9.25%, and minimum one-way fares do not exceed 100 cents. When computing the increased fares authorized, Greyhound's rule for the disposition of fractions shall apply subject to the following modifications:

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).

2. Pending establishment of the specific fares authorized in paragraph 1, Greyhound 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 and that tariffs containing such fares, and all other tariff changes previously authorized by prior orders, are republished within 90 days after the effective date of this order to eliminate the use of the conversion tables.

3. Tariffs may be made effective on not less than 5 days' notice to the Commission and the public.

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

5. In addition to the required posting and filing of tariffs, Greyhound 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 5 days before the effective date of the fare changes and shall remain posted for a period of not less than 30 days.

6. Greyhound in establishing and maintaining the fares authorized is authorized to depart from the provisions of PU Code § 460 to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorization; such outstanding authorization is modified only to the extent necessary to comply with this order; and schedules continuing the rates published under this authority shall make reference to the prior orders authorizing long- and short-haul departures and to this order.

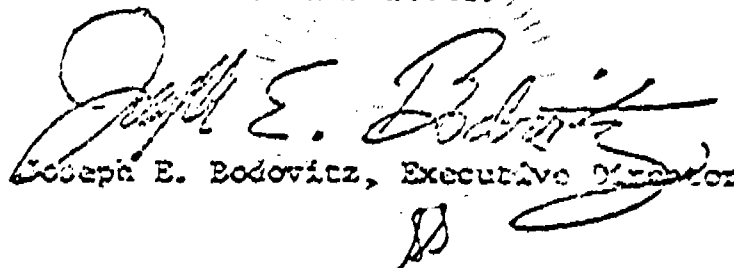
This order is effective today.

Dated JUN 15 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA 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