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Decision No. 88294 DEC 20 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AIRPORT SERVICE, INCORPORATED, a corporation, for authority to adjust its rates.	Application No. 56565 (Filed June 16, 1976; amended December 21, 1976)

James H. Lyons, Attorney at Law, for applicant.
R. W. Russell, by K. D. Walpert, for Department of Public Utilities, City of Los Angeles, interested party.
Jasper Williams, Attorney at Law, R. O. Collins, and I. B. Nagao, for the Commission staff.

O P I N I O N

By Interim Decision No. 87536 issued June 28, 1977, Airport Service, Incorporated (Airport Service) was authorized to increase by 6.5 percent its fares over its passenger stage routes between various airports in Los Angeles County and Orange County, on the one hand, and various points in Los Angeles County and Orange County, on the other hand, as well as between certain of the airports.

At the time of the interim decision a required comparison exhibit had not as yet been filed. That circumstance in turn delayed the filing of briefs. The exhibit and the briefs have since been received; the reply briefs were filed August 5, 1977. Accordingly, this matter now stands ready for final decision.

Principal issues left unresolved by the interim decision include allocations of operating property and expenses between Airport Service and its subsidiary, Orange Coast

Sightseeing Company (Orange Coast), and between the passenger stage and charter operations of Airport Service, service fees levied on Airport Service by its Parent, American Transit Corporation[1/] (American Transit), salvage value in depreciation accounting of revenue equipment, and income taxes.

<u>Allocations - Orange Coast</u>

Orange Coast, a wholly owned subsidiary of Airport Service, is a passenger stage corporation as that term is defined in Section 226 of the Public Utilities Code. Orange Coast holds certificates of public convenience and necessity issued by this Commission pursuant to Section 1031, et seq., of the Public Utilities Code to render sightseeing services originating at points in Orange County to points in Los Angeles and Orange Counties.

Airport Service, pursuant to a lease approved by Decision No. 76330 dated October 28, 1969 in Application No. 50491, furnishes all buses for Orange Coast's passenger stage operations. In that decision, the Commission unmistakably qualified its approval of the lease with the following rate-making disclaimer: "...not to be considered as approval of the reasonableness of the resulting rentals and intercompany charges in the determination of just and reasonable rates."

Airport Service's opening brief at pages 7 and 8 describes the allocations and charges to Orange Coast as follows:

> ". . . A new lease was approved in 1969 pursuant to Decision 76330 in Application 50491. Said lease also provided that Orange Coast may hire bus drivers employed by Airport Coach. The payments

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1/ American Transit Corporation, in turn, is a subsidiary of Chromalloy American Corporation.

> under the latest approved lease (exclusive of drivers' wages) was 31 cents per mile. Mr. Auld explained (TR 48-49) that drivers' wages are billed from Airport Service to Orange Coast on a direct use basis at a weighted average rate to include overtime plus fringes plus 10%. Recognizing that 31 cents from the 1969 decision is probably out-dated, Mr. Auld calculated a new rate of 38.5 cents per mile, taking into consideration present day out-of-pocket costs for the items taken into consideration in establishing the 31 cents per mile. Among these costs were depreciation, fuel and oil taxes, employees' welfare, health, insurance, pension and social security, workmen's compensation, fire and theft and maintenance costs. Orange Coast pays its own PL and PD insurance. Mr. Auld came up with 38.43 cents per mile and used 38.5 cents for the year 1976 for rental to be paid by Orange Coast to Airport Service so as to reflect increased revenues to Airport Service. Mr. Auld allocated 10% of salaried employees involved in Orange Coast's operation, including maintenance supervision salaries, transportation supervision, dispatchers' salaries, salaries in traffic and sales, salaries of general office employees, including officers, and 100% of the salary of the clerical employees whose duties are all Orange Coast. The 10% resulted from an informal study by him and Mr. Boyles, president of Airport Service, over a period of time from observation of the amount of activity on an average basis devoted by the above listed people to Orange Coast. At peak periods there would be a greater amount, but at times of the year Orange Coast required minimum supervision. On an average it required 10% of the people listed above (TR 50). This in his judgment is a fair and reasonable allocation to Orange Coast (TR 50)."

In further regard to the allocation of salaries of employees referred to in the above-quoted material and in regard to the allocation of certain other expenses involved in Orange Coast's operation, these are cost items which are first cast on a percentage basis and are then converted, according to Exhibit 10, to a cost per bus-mile. In 1976 such conversions from a percentage basis yielded a composite charge of 38.28¢ per annual bus-mile. Because of that conversion, the monthly billings for such items by Airport Service fluctuate with Orange Coast's level of business.

In summary, the charges to Orange Coast are in three categories: (1) Equipment Rental at 31¢ per mile (adjusted by Airport Service to 38.5¢ per mile for rate determination or rate year purposes); (2) Drivers' Wages; and (3) Other Items, which for 1976 were billed at 38.28¢ per mile. Of these three categories, it is apparent that only equipment rental could include an allowance for a return on the investment in revenue producing equipment (buses) and for related income taxes.

The equipment rental does not include such an allowance, however. That fact is readily disclosed by a comparison of billings to Orange Coast, for equipment rental at 38.5¢ per bus-mile and for other items at 38.28¢ per bus-mile, with Orange Coast's pro rata share, on a bus-mile basis, of operating expenses, exclusive of those applicable to drivers' wages and to certain other items directly assignable to Airport Service and exclusive of income taxes. The comparison so made is attached to this decision as Appendix A.

There is no apparent reason for Orange Coast's not carrying its proper share of rate base, return on rate base, and related income taxes. In fact, sound reasons have not been advanced for either of the two passenger stage corporations, Airport Service and Orange Coast, doing less than carrying its full share of costs. It is the position of the Transportation Division staff that Orange Coast and Airport Service each should bear its share of fully allocated costs (i.e., neither one should have costs allocated to it on an incremental basis). We uphold that position.

The effect for the rate year of Airport Service's billing Orange Coast by the above enumerated three cost categories is, we have further concluded, to sufficiently approximate, some shortfall notwithstanding, fully allocated costs. Those costs exclude rate base, return, and related income taxes. The comparative results shown in Appendix A, referred to above, support this conclusion.

Accordingly, the $3,015,410 of operation and maintenance expense estimated by Airport Service for its passenger stage and charter operations under present (pre-interim) rates can properly be used in our ratemaking determination subject to whatever adjustment is called for by our resolution of the service fee issue. Airport Service's estimates of operating taxes and licenses of $484,048 and of operating rents of ($100,884), and its revised estimate (Exhibit 11) of depreciation expense of $259,971 may similarly be used. That depreciation expense, as it pertains to buses, is based on a 10 percent salvage value and a 15-year life.

The record does not adequately support using more than a 10 percent salvage value, as advocated by the staff, with a service life of that length. Both Airport Service and the staff have used 15-year lives for such equipment.

In summary, Airport Service's expenses, exclusive of an adjustment for service fees and exclusive of income taxes, for both passenger stage and charter operations for the rate year under the pre-interim rates are:

O&M Expense	$3,015,400
Depreciation	260,000
Oper. Taxes & Licenses	484,000
Oper. Rents (Net)	(100,900)
Total	$3,658,500

(Red Figure)

For the rate year a weighted average rate base, which reflects the acquisition of three new buses in April 1977 and six new buses projected for April 1978, the sale of two old buses projected for April 1978, and the exclusion of three buses which are not a part of the California operation (viz., the "Florida buses"), is developed in Appendix B to this decision. As shown in that appendix, Orange Coast's share of the total rate base of $3,074,700 is $401,600 on a bus-mile basis.

Allocations - Charter

The Transportation Division staff witness has taken the position that the charter operation of Airport Service should carry its full share of costs. Accordingly, in his study Airport Service's common carrier operation expenses and its charter-party operation expenses were separated on a non-incremental cost basis.

In contrast, a principal witness for Airport Service testified that the charter business came about primarily from the need to have additional revenue on the equipment and driver personnel hired to operate the certificated passenger stage service. He stressed that on peak days Airport Service operates no charters because all of its buses are used in its certificated service. Consistent with viewing charter as a means of gaining additional revenue when the buses needed for certificated service are not in use, this witness considered the cost for the charter operation to be those expenses which are incurred as a result of the operation of the buses, i.e., he considered the cost of a charter service to be essentially the out-of-pocket expenses plus depreciation. However, in his study the benefit from charter operations, which is the extent charter revenues exceed incremental expenses, would not be flowed through to the passenger stage operation.

Such a benefit diversion is fundamentally untenable. It is the passenger stage operation which, according to Airport Service's own witness, makes it possible to consider the charter operation on an incremental cost basis. Either charter service should be on a full-cost basis or the extent to which its revenues exceed incremental costs should flow through to the passenger stage operation.

In the study prepared for the rate year by the Finance Division staff witness, flow-through is inherent through the inclusion of the charter operation in Airport Service's operating results. That treatment of the charter operation is consistent with what the Commission used in rate cases on Greyhound (1969) 70 CPUC 429, (1972) 74 CPUC 276, and (1973) 75 CPUC 336; and on Airportransit (1972) 74 CPUC 18.

From Greyhound (1973) 75 CPUC 336, supra, at 343 we quote:

> "In this proceeding the staff did not pursue its historical position relative to the treatment of applicant's charter revenues when making a determination of Greyhound's California intrastate revenue requirements for a projected rate year. The staff and applicant have both included Greyhound's charter operations in its total California intrastate results of operations for the computation of the carrier's projected revenue needs. Such action is consistent with the procedures adopted in the previous decisions referred to herein. The Commission's action in Greyhound Lines, Inc. (1969) 70 CPUC 429 and related Decisions Nos. 75939 and 80545 is premised, of course, upon the understanding that Greyhound's unregulated charter rates yield revenues at least sufficient to cover the out-of-pocket costs of performing the charter service. Failing such test the charter rates become vulnerable to an allegation of unreasonableness and/or undue discrimination to the extent they may have had influence upon the level of Greyhound's regulated passenger fares and express rates."

It is clear from Airport Service's presentation that the charter service fully covers out-of-pocket costs and contributes to overhead, notwithstanding an assignment of driver wages and related costs to charter on a bus-mile basis. That basis may understate the costs involved because of the amount of time a charter driver spends idle waiting for his charter party. It is also clear that Airport Service plans to increase its charter rates on or about October 1, 1977. At the time of hearings in this application no determination had been made by Airport Service as to the size of that charter rate increase.

From May 1972 through October 1976 charter rates were increased five times. During that period the basic rate for a 45-passenger bus increased 53.8 percent and the hourly rate 75 percent. For a 50-passenger bus the basic rate was increased 50 percent and the additional hourly rate was increased 100 percent. If the October 1977 increase were fixed at an average representative of this most recent five-year period, it would approach 10 percent.

In our adopted operating results, charter revenues and expenses reflect a 6.5 percent increase in the charter rates for the rate year.

Summary of Earnings

In Table 1 which follows we are setting forth, consistent with the above determinations on Orange Coast's cost participation and Airport Service's charter operation, our adopted operating results of Airport Service for the rate year.

Table 1

Airport Service, Inc.

Adopted Results of Operation Under Pre-Interim
Fares, Proposed Fares, Interim Fares and
Adopted Fares for Rate Year Ending June 30, 1978

Item	Pre-Interim Fares (a)	Proposed Fares (b)	Interim Fares (c)	Adopted Fares (d)
Operating Revenue				
Passenger Revenue	$2,829,000	$3,497,000	$3,012,900	$3,230,900
Charter Revenue	780,200	830,900	830,900	830,900
Other	8,000	8,000	8,000	8,000
Total Revenue	3,617,200	4,335,900	3,851,800	4,069,800
Operating Expenses				
Operating & Maintenance Expenses	3,015,400	3,015,400	3,015,400	3,015,400
Revenue Related Expenses				
Commissions Paid Increase	-	12,700	3,500	9,200
PL and PD Insurance Increase	-	21,500	7,000	15,700
Depreciation	260,000	260,000	260,000	260,000
Operating Taxes and Licenses	484,000	484,000	484,000	484,000
Gross Receipts Tax Increase		56,800	14,400	41,300
Operating Rents	(100,900)	(100,900)	(100,900)	(100,900)
Exclusion of Portion of Service Fees	(42,000)	(42,000)	(42,000)	(42,000)
Total Operating Expenses	3,616,500	3,707,500	3,641,400	3,682,700
Net Operating Revenue before Income Taxes	700	628,400	210,400	387,100
Income Taxes	200	173,100	5,400	53,800
Net Operating Revenue	$ 500	$ 455,300	$ 205,000	$ 333,300
Rate Base	$2,673,200	$2,673,200	$2,673,200	$2,673,200
Rate of Return	0.0%	17.0%	7.7%	12.5%
Operating Ratio				
Before Taxes	100.0%	85.5%	94.5%	90.5%
After Taxes	100.0%	89.5%	94.7%	91.8%

(Red Figure)

Operating Revenues

In its opening brief the Commission staff contends that Airport Service's $2,904,600 estimate of passenger revenues at pre-interim fares is too low because its 1976 historical base was not adjusted sufficiently for a strike by Airport Service's drivers and ticket agents which curtailed operations from November 19, 1976 to December 9, 1976. The passenger revenue estimate by the Transportation Division staff witness, nevertheless, is somewhat lower than the $2,904,600 figure.

Some time has transpired since the hearings were held, and we are aware that anticipated passenger traffic and revenues have not materialized but are considerably below that estimated by both the applicant and the staff. The quarterly financial reports of operations for the four quarters ending September 30, 1977 filed by applicant under this Commission's General Order No. 65-A (G.O. 65-A), of which we take official notice, show that annual passenger revenues have never attained the amount estimated but have leveled at $2,829,000, after adjustment to a pre-interim fare basis and adjustment to eliminate the effect of the December 1976 strike. We adopt as the passenger revenue for the rate year at pre-interim fares an estimated amount of $2,829,000 as developed from Airport Service's G.O. 65-A reports for the year ending September 30, 1977. The passenger revenues under proposed and interim fares have also been calculated, using this estimated pre-interim revenue as a basis. The passenger revenue for the adopted fares has been calculated to produce the rate of return found reasonable herein.

Charter revenues of $780,200 under pre-interim fares have been increased, as adverted to earlier, by 6.5 percent to $830,900 under interim fares and fares adopted herein.

Service Fees

American Transit renders accounting, purchasing, managerial, and other services to its subsidiaries. The fee for those services is typically fixed at 3 percent of the subsidiary's gross revenues.

In Airport Service's case, however, the fee calculated under the 3 percent formula is reduced by an amount representative of its manager's salary. The stated reason for the reduction is that the other American Transit subsidiaries do not have Airport Service's level of local management (i.e., the other subsidiaries come under an American Transit regional manager, whereas Airport Service's president and manager reports directly to American Transit's president).

In its estimate of operating expenses for the rate year, Airport Service has, it would appear, included for service fees \$110,785, less a \$35,000 allowance for its manager's salary, under both present rates (i.e., pre-interim rates) and proposed rates. Presumably, holding the service fees constant at both rate levels was done to mitigate the criticism that the expenses incurred by American Transit in rendering services to its subsidiaries obviously are not a linear or direct function of the revenues of the subsidiaries.

The Finance Division staff witnesses, as thus expected, have taken exception to basing service fees on a percentage of revenues and recommend: "That service fees from ATC-St. Louis be based upon actual expenditures for services rendered which are reasonable and necessary and can be readily verified and not based on an arbitrary percentage of gross receipts." However, in estimating operating expenses for the rate year, the Finance Division staff inadvertently left in \$62,000 of the service fees included by Airport Service in its estimate when it was unmistakably the staff's intention to exclude the service fees in their entirety. The mix-up appears to have come about as a result of Airport Service's duplicating \$62,000 in service fees entered in operation and maintenance expense and operating rents by an entry of \$62,000 under[2/] other deductions.

2/ Account 7500 - Other Deductions. For nonutility expenses, a "below the line" account.

The exception taken by the Finance Division staff is well founded. An essential objection to payments to a parent company for accounting, purchasing, management, and other services upon a percentage of gross revenue is that the payments bear no necessary relationship to either the cost or the value of such services. Accordingly, the Commission has in the past rejected the percentage-of-revenue basis of payment for services of this type.

The charges made for the services furnished by American Transit, Airport Service contends, are reasonable. In 1976, it points out, the service fee charged Airport Service nearly coincided with an adjusted pro rata share of American Transit's expenses for Airport Service, based on the ratio of Airport Service's expenses to the sum of the expenses of American Transit and its subsidiaries, presumably indicating, in this instance, that service fee revenue from Airport Service is not exceeding a pro rata share of American Transit's actual expenses. An equivalence shown in this way of an expense basis with a revenue basis for 1976 falls far short of establishing a proper basis for the charges, however.

In fairness, a reasonable amount should be allowed in operating expenses for those services, even though Airport Service quite clearly has not met the burden of proof as to what that amount is. The Finance Division's recommendation to disallow the service fees in their entirety because "...actual expenditures for services which are reasonable and necessary and can be verified..." have not been shown is overly harsh. In the rate year a reasonable allowance for those services should not be less than one-half the 1976 level, or about $33,000. In the circumstances, that lower limit figure is appropriate and is adopted as reasonable for the rate year.

Income Taxes

The computation of income taxes in the amount of $200 under pre-interim fares, $53,800 under adopted fares, and $5,357 under interim fares is set out in Appendix C attached to this decision. The tax treatment used is full flow-through of both accelerated depreciation and investment credit. This is consistent with long-established ratemaking practice by the Commission in cases where full flow-through does not affect the taxpayer's eligibility for accelerated depreciation and investment credit. (Airportransit (1973) 75 CPUC 515 at 523.)

Rate Base

The weighted average rate base has been discussed in relation to allocations to Orange Coast. As indicated earlier, the development of the rate base of $2,673,200 is provided in Appendix B to this decision.

Fair Rate of Return

The Finance Division staff witness, taking into consideration a number of factors including Airport Service's capital structure, its debt service requirements, the rates of return authorized by the Commission in other motor carrier decisions, and the refusal by Airport Service to make available necessary tax returns of Chromalloy American Corporation, the parent to American Transit, and specific tax-related calculations, recommended a 10 percent rate of return with an operating ratio of 90.53 percent, for a net carrier income of $337,443 after income taxes.

The Transportation Division staff witness has recommended a 10 percent rate increase, with $140,838 net income after taxes, as an appropriate guideline to follow in determining revenue requirements for Airport Service. According to the operating results study by Airport Service's witness, its proposed rates would yield an 89.61 percent operating ratio before income taxes and after excluding charter revenues and out-of-pocket expenses.

When consideration is given to the long-term cost of debt of 9.56 percent and the equity/debt ratio of 60.5/39.5 for Airport Service's total capitalization, a 12.5 percent rate of return would yield a computed return on common equity of 14 percent. This yields a reasonable operating ratio of 91.8 after taxes. We conclude that a 12.5 percent rate of return on a rate base of $2,673,200 is fair and reasonable for Airport Service. Accordingly, the adopted operating results in Table I of this opinion show that 12.5 percent rate of return is achieved in the rate year by a 7.2 percent increase over interim passenger stage fares.

Accounting Recommendations

The Finance Division staff witnesses made in Exhibit 3 the 16 accounting recommendations set out below. The disposition given is indicated after each recommendation.

> Recommendation 1: That title to land, land rights, and structures used and financed by Airport Service be transferred from American Transit to Airport Service within ninety days from the decision date.

Airport Service agreed to this recommendation. It should be carried out.

> Recommendation 2: That original cost of revenue equipment (buses which are leased to Gray Lines of Fort Lauderdale, Florida) be transferred to Account 1450, nonoperating property, and the related reserve for depreciation be transferred to account 2610.

Airport Service and staff agreed that $222,282, the original cost of the buses, will be transferred to Account 1300, carrier operating property, and the related reserve for depreciation will be transferred to Account 2610. This should be carried out as agreed upon.

Recommendation 3: That gains and losses on sale of revenue equipment be recorded in the general ledger as an adjustment to the depreciation expense account in accordance with the Uniform System of Accounts (USA).

Airport Service and staff agreed that the general ledger entries will be made in conformity with the Securities and Exchange Commission's reporting requirements and Airport Service will annually reconcile the differences and submit the reconciliation with its annual report to this Commission. This should be carried out as agreed upon.

Recommendation 4: That revenue equipment salvage value reflect 15 percent of original cost as established for Airportransit in Decision No. 86496.

Airport Service brought out that the salvage value so established in Decision No. 86496 was in relation to a nine-year service life. The 10 percent salvage value and 15-year service life contended for by Airport Service is reasonable and should be used for both book and ratemaking purposes.

Recommendation 5: That service fees from American Transit be based upon actual expenditures for services rendered which are reasonable and necessary and can be readily verified and not based on an arbitrary percentage of gross receipts.

Airport Service should undertake to have this recommendation implemented with the understanding that allocations of actual expenditures for joint or common services rendered, although unavoidable, must be reasonable.

Recommendation 6: That travel expenses incurred by officers be charged directly to the administration and general expenses of Airport Service to follow their salaries.

Airport Service agreed to this recommendation. It should be carried out.

Recommendation 7: That Airport Service maintain all its accounting and financial records in California.

Airport Service's accounting records are sent to American Transit in St. Louis daily. California Public Utilities Code Section 791 requires that a utility's records must be kept in California unless the Commission authorizes otherwise. By letter dated March 23, 1977 the Commission, in response to a request by Airport Service, stated that it "will interpose no objection to the maintenance of the accounting records of Airport Service, Incorporated, by American Transit Corporation at their home office, 120 South Central Avenue, St. Louis, Missouri 63105."

Recommendation 8: That charter revenue and expenses be segregated so that profit or loss from such operations can be determined.

In order to insure that certificated rates are just and reasonable, the Commission must examine Airport Service's charter operations to ascertain whether such operations are at least marginally profitable. Accordingly, Airport Service should continue to have the capability of preparing from its records an incremental cost study of the type used in Exhibits 7 and 7A. In addition, however, accurate records should be kept of the actual time devoted by drivers to charter operations.

Recommendation 9: That the general ledger reflect only authorized account numbers and account titles as prescribed by USA.

As was done with Recommendation 3, above, the general ledger will be kept in conformity with the Securities and Exchange Commission's accounting requirements, but Airport Service is required to reconcile the differences in the two accounting systems and submit the reconciliation with its annual report to this Commission.

Recommendation 10: That billing rates to Orange Coast be revised annually, or whenever necessary, to reflect current conditions, and that a formal management study be submitted to the Commission for review and approval.

Airport Service and Orange Coast should restructure their arrangements to provide for each company bearing its full share of joint costs in a manner consonant with the ratemaking treatment used in this decision.

Recommendation 11: That payments to local chambers of commerce be charged to Account 7500, Other Deductions.

Although the staff made no adjustment for the chamber of commerce payments, such dues are not an expense for ratemaking purposes. In the future, they should be charged to Account 7500. (Southern Cal Edison (1969) 70 CPUC 95, 110.)

Recommendation 12: That estimated federal and state income taxes be accrued and recorded in the general ledger on a monthly basis.

Airport Service and staff agreed to accrual on a quarterly basis. This should be done as agreed upon.

Recommendation 13: That the annual report only reflect recorded balances as shown in the general ledger which is maintained in accordance with USA.

This recommendation is not compatible with the disposition we have given to Recommendation 9, above.

Recommendation 14: That Airport Service prepare a reconciliation between book income and taxable income and include same in the annual report.

Airport Service is expected to implement this recommendation.

Recommendation 15: That Airport Service prepare a statement of changes in financial position and include same in its annual report to the Commission.

Apparently Airport Service's only objection to this recommendation is that there is no format in the annual report. If necessary, the staff will assist Airport Service in preparing an acceptable format.

Recommendation 16: That all transactions between affiliated companies be clearly identified and classified in the proper general accounts.

Airport Service has not complied with the reporting requirements of Schedule 9009 - Contracts and Agreements - Associated Companies of the annual report to the Commission for Class 1 motor carriers of passengers. The instructions for Schedule 9009 are as follows:

"Schedule 9009.-Contracts and Agreements-Associated Companies

"1. Furnish the information called for in item 9 concerning each contract agreement or arrangement (written or unwritten) in effect at any time during the year between the respondent and companies or persons associated with the respondent, including officers, directors, stockholders, owners, partners or their wives and other close relatives, or their agents, whereby the respondent received management, construction, engineering, financial, legal, accounting, purchasing or other type of service including the furnishing of materials and supplies, purchase of equipment and the leasing of structures, land, and vehicles.

"2. The basis for computing payments such as rental charges, commissions, taxes, maintenance costs, charges for improvements, etc., should be fully stated in the case of each such contract, agreement or arrangement.

"3. The total amount paid by the respondent during the year under the terms of each contract, agreement, etc., should be stated.

"4. If motor fuel is furnished the respondent, the price per gallon should be shown.

"5. In connection with the repairing and servicing of the respondent's equipment, and the furnishing of other materials and supplies, the markup of labor and materials should be stated.

"6. Information to be reported in this schedule shall be furnished for each company or individual to whom the respondent paid $2,500 or more during the year covered by the report.

"7. Do not include information shown in schedule 9002-A.

"8. If the respondent did not participate in any such contract or arrangement, that fact should be stated.

"9. (a) Name of company or person rendering service.
(b) If associate is other than a principally-owned subsidiary of respondent such as a company controlled by persons associated with respondent, furnish names of partners, owners, or stockholders of associate and their proportionate interest in associate.
(c) Character of service.
(d) Basis of charges.
(e) Date and term of contract.
(f) Date of Commission authorization, if contract has received Commission approval.
(g) Total charges for year, classified as to purchases, compensation for service, and reimbursement for expenses."

Airport Service must comply with the above reporting requirements.

Findings

1. An interim fare increase of 6.5 percent for Airport Service was authorized by Decision No. 87536 dated June 28, 1977. Issues left unresolved by the interim decision included allocations of operating property and expenses between Airport Service and Orange Coast and between the passenger stage and charter

operations of Airport Service, service fees levied on Airport Service by American Transit, salvage value of revenue equipment, and income taxes.

2. Airport Service and Orange Coast are passenger stage corporations, each of which should bear its fair share of joint costs. It is equitable, fair, and proper for such costs to be allocated to Orange Coast on a full cost, not an incremental cost, basis.

3. Airport Service's charter operation should be included in its results of operation for the computation of its projected revenue needs. To make the rate year revenues compatible with near future operations, an increase of not less than 6.5 percent in charter rates is indicated.

4. The operating results set forth in Table 1, Column (d) of the preceding opinion should reasonably represent Airport Service's revenues, expenses, rate base, and operating ratio for the near future under the adopted fares.

5. A disallowance of a portion of the service fees levied by American Transit is warranted. In the rate year a reasonable allowance for those services should approximate one-half of the 1976 level of those fees.

6. The computation of state and federal income taxes should reflect full flow-through of accelerated depreciation; the computation of federal income taxes should also reflect full flow-through of the investment credit.

7.a. A fair rate of return for Airport Service is 12.5 percent. It yields a computed return on common equity, which comprises 60.5 percent of Airport Service's total capitalization, of 14.0 percent. In the rate year the 12.5 percent rate of return is applied to a rate base of $2,673,200.

b. A further fare increase of 7.2 percent applied to the interim fares authorized by Decision No. 87536 should be granted to produce sufficient revenue to result in a 12.5 percent rate of return. This is equivalent to a 14.2 percent increase in the pre-interim fares in contrast to an approximate 23.6 percent fare increase sought by the applicant.

8. In accordance with Section 730.3 of the Public Utilities Code, affected state and local public agencies and corporations operating passenger transit systems were notified of the application and were requested to furnish an analysis of the effect of the proposed rate increase on overall transportation problems within the territories served by such passenger transit systems. Of the parties so notified, the Southern California Rapid Transit District responded, advising that the proposed increase would have no effect upon its operations.

9. In accordance with Section 730.5 of the Public Utilities Code, we find that the interim fare increase made permanent by this decision will result in an insignificant decrease in patronage. The fare increase will have no effect upon public transit systems as proposed in required transportation plans prepared pursuant to Chapter 2.5 of Title 7 of the Government Code.

10. Disposition of 16 staff accounting recommendations is set forth on pages 14, 15, 16, 17, 18, and 19 of this decision. In each instance the disposition given is proper and warranted.

11. The adopted fare increase will result in additional annual revenue of approximately $401,900 over pre-interim fares, or $218,000 over interim fares. The fare increase is justified.

The Commission concludes that the level of the interim fares authorized by Decision No. 87536 should be increased by 7.2 percent to the fares as set forth in Appendix D.

O R D E R

IT IS ORDERED that:

1. Airport Service, Incorporated is authorized to establish the increased fares as set forth in Appendix D to this decision.

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

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

4. Airport Service, Incorporated shall make its accounting and related practices conform to the disposition given on pages 14, 15, 16, 17, 18, and 19 of this decision to the staff accounting recommendations.

5. In addition to the required posting and filing of tariffs, Airport Service, Incorporated shall give notice to the public by posting in its buses and terminals an 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.

The effective date of this order **is the date hereof.**

Dated at San Francisco, California, this 20th day of DECEMBER, 1977.

Robert Batinovich

William Symons, Jr.

Richard D. Gravelle

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

A.56565 es/ddb

APPENDIX A

Airport Service, Inc. (ASI)
1976 Historical Year
Comparative Results of (I) Allocation of Joint Expenses to Orange Coast Sightseeing Company (OCSS) on a Bus-mile Basis and (II) ASI's Pro Forma Billings on OCSS

I. Joint Expenses Allocated to OCSS on a Bus-mile Basis — $250,817

Description		Exhibit 1	Adjustments Direct ASI Expenses		1976 Total Adjusted Joint Expenses
	Expenses				
4000	Oper. & Maint.	$2,614,639	D. Wages	$ 887,987	
5000	Depreciation*	235,997	Serv. Fees	66,221	
5200	Oper. Taxes & Lic.	442,127	Gr. Tax	195,976	
			PL & PD	121,920	
5300	Oper. Rents*	(77,914)	Station	257,359	
ASI Total Oper. & Maint.		$3,214,849			
Add:	OCSS - .3828 1/	117,222			
	- .385	117,896			
	Subtotal	$3,449,967		1,529,463	1,920,504
					x 13.06% 2/
					$ 250,817

* Has Florida buses removed.

II. ASI's Pro Forma Billing on OCSS — $235,118

1/ Rates	Mileage	
$0.385/mi.	306,223 2/	$117,896
$0.3828/mi.		117,222
		$235,118

2/ 1976 Allocations	ASI	OCSS	Total
Bus Miles	2,037,729	306,223	2,343,952
Percentage	86.94%	13.06%	100.0%

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APPENDIX B

AIRPORT SERVICE, INC.

AVERAGE RATE BASE CALCULATIONS FOR RATE YEAR JULY 1, 1977 THRU JUNE 30, 1978

Description	1976 Annual Report	Elimination 3 Buses Florida	Adjusted 12/31/76 Balance	Adjustments thru 6/30/77	Adjusted 6/30/77 Balance	Adjustments thru 4/30/78	Adjusted 4/30/78 Balance	Adjustments thru 5/31/78	Adjusted 5/31/78 Balance	Adjustments thru 6/30/78	Adjusted 6/30/78 Balance
Tangible Property:											
Carrier Operating Property	$4,659,604	$(222,282)	$4,437,322	$286,872 1/	$4,724,194	$ -0-	$4,724,194	$649,848 5/ (94,364) 6/	$5,279,678	$ -0-	$5,279,678
Less: Reserve for Depreciation	1,625,602	(29,338)	1,596,264	120,867 2/	1,717,131	210,980 4/	1,928,111	23,875 7/ (74,085) 6/	1,877,901	23,875 7/	1,901,776
Net Tangible Property	3,034,002	(192,944)	2,841,058	166,005	3,007,063	(210,980)	2,796,083	605,694	3,401,777	(23,875)	3,377,902
Intangible Property) 3/	1,991		1,991		1,991		1,991		1,991		1,991
Material and Supply) 3/	89,766		89,766		89,766		89,766		89,766		89,766
Net Plant Investment	$3,125,759	$(192,944)	$2,932,815	$166,005	$3,098,820	$(210,980)	$2,887,840	$605,694	$3,493,534	$(23,875)	$3,469,659

					Weighted Amount	
Weighted Average Rate Base:						
Beginning Balance	7/1/77		$3,098,820			
Add: Balance at	4/30/78		2,887,840			
Subtotal			$5,986,660			
÷ 2 Average				$2,993,330		
x 10 Months					$29,933,300	
Add: Balance at	5/31/78	1 Month			3,493,534	
Add: Balance at	6/30/78	1 Month			3,469,659	
Total					$36,896,493	
÷ 12 Months for Weighted Average Rate Base						$3,074,708
Allocation:						
ASI	86.94%				$ 2,673,151	$2,673,151
OCSS	13.06					401,557
Total	100.00%					$3,074,708

1/ Addition of 3 new buses
2/ 6 months depreciation
3/ Remain constant for calculations
4/ 10 months depreciation
5/ Addition of 6 new buses
6/ Retirement of 2 old buses sold and related reserve adjustment
7/ Monthly adjusted depreciation

APPENDIX C

Airport Service, Inc.
Income Taxes on Estimated Results of Operation
For Rate Year July 1, 1977 Thru June 30, 1978

Description	Operations at Pre-Interim Fares	At Interim Fares	Proposed Fares	Adopted Fares
	(a)	(b)	(c)	(d)
Net Operating Revenue before Income Taxes	$ 700 1/	$210,400 2/	$628,400 3/	$387,100
FIT and SFT Adjustments				
Interest	110,800	110,800	110,800	110,800
Accelerated Depreciation	40,080	40,080	40,080	40,080
Net Income Subject to SFT (Loss)	(150,180)	59,520	477,520	236,220
SFT 9% $200 Minimum	200	5,357	42,977	21,260
Net Income Subject to FIT (Loss)	(150,380)	54,163	434,543	214,960
FIT at 20% x 25,000		5,000	5,000	5,000
22% x 25,000		5,500	5,500	5,500
48% x Balance		1,998	184,581	79,181
Total FIT	-0-	12,498	195,081	89,861
Less FIT Credit				
ITC		36,177	64,985	57,340
Total FIT Expense	-0-	-0-	130,096	32,521
Total State and Federal Taxes	$ 200	$ 5,357	$173,073	$ 53,781

1/ From Table 1, column (a) on page 9 of this decision.

2/ From Table 1, column (c) on page 9 of this decision.

3/ From Table 1, column (b) on page 9 of this decision.

(Red Figure)

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APPENDIX D

Authorized Fares for Airport Service, Incorporated

Between	One Way Adult	One Way Child
Los Angeles International Airport, Los Angeles		
And		
Anaheim	$3.40	$1.70
Buena Park	3.40	1.70
Fullerton	3.40	1.70
Long Beach Airport, Long Beach	2.75	1.40
Seal Beach	3.15	1.60
Orange	3.90	1.95
Santa Ana	3.90	1.95
Orange County Airport, Santa Ana	4.55	2.30
Newport Beach	4.95	2.50
*El Toro Marine Corps Air Station, El Toro	4.55	2.30
Laguna Hills	5.75	2.90
Mission Viejo	6.00	3.00
Long Beach	2.75	1.40
*Long Beach Naval Base, Long Beach	3.00	1.50
*Long Beach Harbor, Long Beach	3.00	1.50
Huntington Beach	4.00	2.00
Pasadena	2.75	1.40
San Marino	2.75	1.40
Arcadia	2.85	1.45
Monrovia	2.85	1.45

*On-call Service - Minumum 5 adult fares.

Children Fares - Ages 5 through 11.
No charge under 5 when accompanied by an adult.

APPENDIX D

Between	One Way Adult	One Way Child
*Ontario International Airport, Ontario		
And		
Anaheim	$3.45	$1.75
Fullerton	3.45	1.75
Long Beach Airport, Long Beach	4.55	2.30
Santa Ana	4.00	2.00
Orange County Airport, Santa Ana	4.55	2.30
Newport Beach	5.00	2.50
Laguna Hills	5.75	2.90
Mission Viejo	6.00	3.00
Long Beach	4.55	2.30
Long Beach Naval Base, Long Beach	4.90	2.45
Long Beach Harbor, Long Beach	4.90	2.45
Huntington Beach	4.55	2.30
Pasadena	3.45	1.75
Arcadia	3.45	1.75
San Marino	3.45	1.75
Seal Beach	4.55	2.30
Monrovia	3.45	1.75

*On-call Service - Minimum 5 adult fares.

Between	One Way Adult	One Way Child
*Lockheed Air Terminal, Burbank		
And		
Long Beach	$3.70	$1.85
Long Beach Naval Base, Long Beach	4.00	2.00
Long Beach Harbor, Long Beach	4.00	2.00

*On-call Service - Minimum 5 adult fares.

Children Fares - Ages 5 through 11.
No charge under 5 when accompanied by an adult.

Between	One Way Adult	Child
Orange County Airport, Santa Ana		
And		
Anaheim	$1.45	$0.75
Huntington Beach	1.15	0.60
Long Beach Airport, Long Beach	2.30	1.15
Seal Beach	2.00	1.00
Orange	0.85	0.45
Santa Ana	0.60	0.30
Newport Beach	0.60	0.30
Laguna Hills	1.15	0.60
Mission Viejo	1.45	0.75
Buena Park	1.70	0.85
Long Beach	2.30	1.15

Between	Adult	Child
Long Beach Airport, Long Beach		
And		
Anaheim	$1.70	$0.85
Huntington Beach	1.70	0.85
Orange County Airport, Santa Ana	2.30	1.15
Los Angeles International Airport, Los Angeles	2.75	1.40
Seal Beach	0.60	0.30

Children Fares - Ages 5 through 11.
No charge under 5 when accompanied by an adult.