WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 1127

IN THE MATTER OF:		Served March 24, 1971
Application of WMA Transit Company for Authority to Increase Fares.	)))	Application No. 655 Docket No. 222

APPEARANCES:

M. WILLIAM ADELSON and STANLEY H. KAMEROW, on behalf of WMA Transit Company, applicant.

HOWARD L. PETERSON, (pro se), protestant.

DOUGLAS N. SCHNEIDER, JR., General Counsel, Washington Metropolitan Area Transit Commission.

BEFORE GEORGE A. AVERY, CHAIRMAN, WILLIAM O. DOUB, VICE CHAIRMAN.

I

PROCEDURAL BACKGROUND

On November 3, 1970, WMA Transit Company (WMA) filed its WMATC Tariff No. 32 setting forth new increased regular route fares. At the same time, the necessary supporting documents were submitted and marked as Application No. 655.

The proposed rate structure would increase the intra-District of Columbia fare from 35 cents to 50 cents. For Maryland service, WMA's proposal would abolish existing fare zones and substitute a flat fare of 80 cents for interstate rides (except for certain express service which would be 90 cents) and a flat fare of 55 cents for intra-state rides. (For full comparative details see Appendix A.) In addition, WMA sought permission to end an arrangement with D. C. Transit System, Inc., under which intra-District of Columbia passengers could, at certain points, transfer between carriers without charge.

Order No. 1107, issued December 2, 1970, suspended WMATC Tariff No. 32, and set public hearings on the company's proposals. Seven days of hearings were held, including two informal evening hearings held in the WMA service area in order to best elicit comments from members of the public. Order No. 1121, issued March 1, 1971, further suspended Tariff No. 32 through March 31, 1971. The formal record included 879 pages of transcript and 47 exhibits.

II

THE HISTORICAL PERIOD

Both WMA and the staff employed the twelve months ending August 31, 1970, as the historical period, and submitted adjusted operating statements for that period to be used as a basis for projecting future operating results.

The staff presentation differed from that of the WMA in two main particulars. First, WMA sought to amortize a prepaid insurance premium. The payment was actually a premium deposit required by the insurance contract rather than a prepayment of premiums, and the staff removed the amortization expense from the historical period, and transferred the amount involved, $38,199.98, to an asset account of the balance sheet. The second item, and the only one the company disputed, was the staff disallowance of $47,218.50 representing an estimate of repair cost for six damaged buses. The estimated cost was booked as an operating expense during the historical period even though the repairs were not made, and the expense was therefore not incurred, in the historical period. The staff disallowed this amount on the basis of its interpretation of the Uniform System of Accounts set out in WMA Exhibits 19, 20, and 21. We concur in the staff's interpretation and, accordingly, have not included estimated cost of bus repairs not made as a proper operating expense in the historical period. We therefore find that the figures in Table I reflect the financial results of WMA's operations during the historical period.

TABLE I

<u>Operating Revenue</u>:	
Passenger Revenue	$ 2,358,153
Charter and Government Contract Revenue	1,065,302
School Subsidy Revenue	30,460
Other Operating Revenue	12,195
Total Operating Revenues	$ 3,466,110
<u>Operating Revenue Deductions</u>:	
Operating Expenses	$ 2,539,238
Depreciation Expense	352,649
Operating Taxes and Licenses	278,938
Operating Rents	188,956
Income Taxes	-0-
Total Operating Revenue Deductions	$ 3,359,781
Net Operating Income	$ 106,329
Operating Ratio	96.93%
Rate of Return on Operating Revenues	3.07%

Interest Expense (Net)	$219,660
Return to Equity	$ -0-

III

PROJECTED OPERATING RESULTS

Both the company and the staff presented projections of operating results for the future annual period January 1 through December 31, 1971, at present fares. In most categories of revenue and expense, the company and staff figures were at variance. We will discuss each in turn.

A. REVENUES

1. <u>Regular Route Passengers</u>

The company forecast a total of 4,733,034 regular route passengers for the future annual period without a fare increase.

This forecast was based on the revenue experience from June 20 to August 31, 1970, the period immediately following the last fare increase, and on traffic checks made in September and October 1970. Having determined what the level of passengers would be without a fare increase, the company calculated that with the increase it proposed, applying a resistance factor of .25% for each 1% increase in fare, a total of 4,382,102 passengers would be carried in the future annual period at proposed fares.

The staff forecast 4,832,092 passengers in the future annual period at present fares by annualizing the results of the five months immediately following the June 1970 fare increase, July through November 1970, on the same ratio as the July to November period in 1966 bore to the year July 1966 through June 1967. The staff used the 1966-67 period for annualizing the five months July through November of 1970 because it appeared to the staff that more recent periods were too much affected by strikes, civil disturbances, and fare increases to constitute a normal base. The company took the position that the five months of 1970 could just as well have been annualized on the basis of the experience of 1969-70, which would have resulted in a more conservative estimate than the staff's.

Another difference in the staff's methodology was in its use of a resistance factor of .32% for every 1% increase in fare, except that the staff applied a .50% resistance factor to those passengers who would lose the free transfer privilege, and a resistance factor of .75% for those passengers who use the service of WMA in areas where WMA and D. C. Transit provide competing services. The .32% resistance factor was based on the actual resistance that developed from the June 1970 fare increase. The .50% and .75% resistance factors were based on the best judgment of the staff.

The problem of forecasting the number of passengers that will ride under a given fare structure in the future is always, at best, extremely difficult. As the testimony and exhibits in this case indicate, quite different results can be had simply by using different periods as a basis for annualizing current experience. We are not inclined to agree with the staff's use of 1966-67 experience. Although that may be the last "normal" period, it is nevertheless too remote for projecting the level of passengers that can be expected during 1971. On the other hand, we do not consider that the 1969-70 period was so unaffected by disruptive factors that it can be used as a proper period for determining what will happen during 1971. Therefore, we will use the company's estimate of passengers for the future annual period at present fares because it seems to us that the method used by the company produces the most realistic result of any presented. However, we believe that the resistance factor of .25% used by the company is not realistic. The analysis submitted by the staff indicates that the actual resistance from the last increase was .32%. And it seems obvious to us that even .32% is low if there are factors in addition to an increase in fare that might affect a patron's decision to ride the WMA bus. For example, there would clearly be more than the normal resistance to a particular increase on WMA if the patron has the option of using competing service costing less. Hence, we will adopt the staff's resistance factors.

To summarize, using the company's method of forecasting the level of passengers, we will use 4,733,034 as the number of passengers during the future annual period at no increase in fares. Applying the staff resistance factors to that figure, we forecast that under the company's proposal the number of passengers in the future annual period will be 4,091,085.

One other issue remains in respect to the forecast of regular route revenues for the future annual period, i.e. the question of whether a school fare subsidy will be available throughout the future annual period. The legislation currently in effect authorizing the payment to the company by the District of Columbia government of the difference between the school fare and the regular adult fare expires on August 31, 1971. On the other hand, the budget for the District of Columbia for FY 1972 includes an amount for payment of the subsidy. Legislation to extend the subsidy authorization has been introduced in the Congress. We have been given assurances that would indicate that the subsidy law will be extended, and we will therefore proceed on the assumption that the school fare subsidy will be available throughout the future annual period.

2. Charter, Sightseeing and Contract Revenue

WMA forecast charter revenue of $1,068,913 for the future annual period. That forecast was based on the assumption that the company's charter revenues would not exceed the level realized in the historical period. The staff concluded that inasmuch as the company's recent charter revenue trend shows that each year has brought an increase over the last, it would be inappropriate to forecast charter revenues for the future annual period at the level of the historical period. The staff calculated that the average increase in the years 1967 through 1970 over each preceding year was $133,830. Adding that average amount to the revenue for Calendar 1970, the staff arrived at a forecast of $1,204,265 for charter revenues in the future annual period. The company in turn contended that its more conservative estimate was due to the fact that the D. C. Public School System has purchased some 30 school buses which caused WMA to lose a $67,680 contract with the D. C. Public School System for carrying school children and has had the incidental effect of depriving WMA of fifteen daily school charters which WMA asserted it could not replace in the particular hours involved. The company further asserted that it could not make up that lost business in addition to its usual increase over the prior year.

We note that the WMA charter rates are still the lowest charter rates for any major charterer in the area. WMA did not raise its rates to any significant extent this year whereas other major charter operators did so during January 1971. WMA's charter rates, for the most part, are below those of Atwood's Transport Lines, Inc. which WMA contends is its most serious competitor. These circumstances, in our opinion, have created for WMA a very distinct competitive advantage. In addition, WMA has in its employ an aggressive charter manager whose ability to generate charter and contract business has been proven. We believe that in these circumstances, substantial new business can be generated by the company.

Another way WMA can increase its charter revenues, but without increasing its business over the level of the historical period, is by increasing its charter rates. As we have mentioned, WMA rates are below its competitors' and some increase could be made and WMA could still remain below those competitors. Thus, we believe that one way or the other WMA can produce charter revenues in the magnitude projected by the staff and we will use the staff's projection for the future annual period.

B. EXPENSES

1. Driver Pay Hours

The company estimated driver pay hours for the future annual period would be 357,248. The staff, on the other hand, estimatedthe driver pay hours would be 362,789. The difference in the estimates was due to the fact that the staff deducted from the mileage used to compute driver pay hours the miles involved in Laurel-to-Washington service that was discontinued after the rate application was filed, and added the mileage attributable to the staff's estimate of increased charter miles to be operated in the future annual period. Since we are adopting the staff's estimate of charter revenues, and hence its estimate of charter miles, we will use the staff's estimate of driver pay hours.

2. Salary Increases and Pension Plan for Non-Union Employees

The company projected an increased salary expense during the future annual period of $60,636 for salary increases for employees not covered by a union contract. Only the salaries of the president and vice president in charge of operations were projected at the 1970 level.

The staff questioned whether salary increases representing substantial percentage increases (see Staff Exhibit 5, Schedule 3) are justified in light of the weakened financial condition of the company. A further question was raised as to whether the company is actually committed to pay the increased salaries since the increases had not actually been paid to any employee even though January 1 had passed. The staff suggested disallowing $43,240, the amount of salary increases, and payroll taxes thereon, not in effect at the time the staff submitted its case. Testimony of company witnesses is that the increased amounts are being booked and will be paid as soon as the company receives some relief by way of increased fares.

The company also projected an increased expense in the future annual period of $28,717 to provide a pension program for non-union employees to be instituted this year. At the time of the staff's presentation in early February, arrangements for the institution of the pension program had not been completed. The staff felt, as the pension plan was discretionary and might not actually be undertaken by the company, its cost should be disallowed.

We will allow, for purposes of projecting expenses for the future annual period, both the salary increases projected by the company and an amount to cover the expense of the pension program. There does not appear to be any doubt that the salaries projected will be paid to the employees involved. The company's president has unequivocally so stated in sworn testimony. And while the increases are substantial in terms of percentages, the record indicates that WMA non-union employees have foregone salary increases in the past due to a cash flow problem in the company. None of the salaries at the projected levels can be considered excessive. As to the pension plan, the president of the company testified that as of early February only minor matters remained to be resolved before a contract would be entered into for the pension plan. The program would be retroactive to January 1, 1971. Considering the commitments made to us by the company president, we are convinced that the pension program will be effectuated.

3. Driver Training

Included in the company's forecast of expenses was an item of $43,593 for driver training, the amount expended in that category in the historical year. In examining the basis for the company figure, the staff found that during 1970 some drivers had been in training status for three or four months and had been paid the training rate for up to thirteen weeks. Yet, testimony of the company's vice president in charge of operations was that the normal training period was only four weeks. Concluding that the company's historical year expenditure for training did not, therefore, necessarily reflect the legitimate cost of a bona fide training program, the staff undertook to develop its own estimate of the cost of training the drivers that would be needed in the future annual period, assuming a six-week training program and assuming a certain level of turnover. Based on this analysis the staff estimated the training cost for the future annual period would be $26,880.

We will allow the amount estimated by the staff for driver training. Not only has the company failed to make a clear record to support its higher estimate on the basis of number of persons to be trained and the period during which they would undergo training, but the record that we do have indicates that during the historical period the company had undertaken a program to increase its driver force from a level which had been admittedly low. The company contends that its driver force is now up to quota. We, therefore, must assume that fewer trainees will be needed to meet the demands of the future annual period than were required in the historical period. Hence, we consider the staff estimate to be the more realistic.

4. Engine Overhauls

A major item of expense forecast by the company, and one with which the staff took particular exception, was the cost of performing 73 major engine overhauls, at a total cost of $49,460 for parts alone.

In contrast to the company's estimate of 73 the staff recommended allowance for the cost of performing 20 engine overhauls. That figure was arrived at on the assumption that an engine can accumulate 300,000 miles on the average between overhauls. Applying that average to the present mileage on the buses of the WMA fleet, the number of buses to be overhauled annually would be 15. The staff included an additional 5 buses to be overhauled in order to take into account unusual circumstances which might require an overhaul before a bus accumulates 300,000 miles.

We are not convinced that we should allow the expense for 73 engine overhauls in a one-year period. During the historical year, only 8 engine overhauls were performed by WMA. And while we appreciate that the overhaul activity during the historical year was minimal and therefore is not a good measure of the amount of work that needs to be done in a given year in order to keep the fleet in top condition, it should be equally clear to WMA that we will not allow expenses for the future annual period to cover maintenance which has been deferred over a long period of time. The record here shows that engine work has been deferred over a period of two years. Moreover, we believe that the company should establish a regular cycle for engine overhauls such as the staff has suggested, which will assure periodic overhauls of the entire fleet so that it will not again come before this Commission seeking an allowance during a single rate year for the cost of overhauling the engines in considerably more than half of its fleet. Obviously, the company will not be required to overhaul the engines in over half of its fleet every year unless there is something drastically wrong with the maintenance that would cause the engines to need overhauls at that frequency. Hence we do not believe that 73 overhauls in a total fleet of 138 buses, even if they were to be accomplished, should be charged to ratepayers in one year. We believe that the staff's estimate of needed overhauls is a fair allowance, as the record indicates to us that 20 engine overhauls a year, if actually performed on a year-in year-out basis, would constitute a reasonable and fully adequate program.

5. Air-Conditioning

The company forecast an additional expense in the future annual period over the historical period for repairs to air conditioners of $26,165 for parts and $7,560 for contracted labor at $10 an hour. At a later stage in the case, the company revised the parts estimates upward to $31,083 which was the amount for air-conditioning parts already ordered in 1971 and which would be used in the repairs to be accomplished in 1971. The staff on the other hand, would allow $12,235 for air-conditioning parts, only $2,725 over the amount of $9,510 expended in the historical year. The staff estimate was based on the assumption that a full-time air-conditioning mechanic would be hired and the parts he would use would bear the same relationship to the hours he would work in the year as the parts-to-hours ratio experienced by the company in air-conditioning repair work during the historical period. We believe that the most accurate estimate as to the amount which will be expended on air-conditioning parts should be based on what has been actually expended for parts which will be needed throughout the remainder of the year, i.e. $31,000. The record shows that an improved air-conditioning maintenance program must be established, and established immediately. The company must assure that its patrons will not again be faced with the anomalous situation of last summer, when, in the period immediately after a fare increase which had included as a part of its basis an amount for depreciation on air-conditioning equipment, the air-conditioning was more likely to be inoperative than not. The allowance for air-conditioning parts we are making will allow that improved maintenance program.

6. New Mechanic Personnel

The company requested allowance for additional mechanic personnel consisting of an additional supervisor and five mechanics. Company testimony was to the effect that two new body men are needed, two air-conditioning men and a general mechanic. Some of the new mechanics would be placed on the night crew and the new supervisor would be a working supervisor on the night shift. The company also included an expense of $15,263 for labor involved in body repair work which WMA anticipated would be done at an independent body repair shop. The staff disputed the need of 5 mechanics and a supervisor. The staff analysis agreed that two new body men could be efficiently used, but that it is likely if the company had two full-time body men employed, it would not be required to send body repair work outside the company. The staff concluded that only one air-conditioning mechanic was needed, which would free the general mechanic who had done some air-conditioning work in the historical period to return to general maintenance. Citing the size of the company's total maintenance force and the number of supervisors already employed, the staff concluded that an additional supervisor would not be needed even with the increased mechanic force.

While there are conflicting views presented to us as to how many new mechanic employees performing particular jobs are required, there is no dispute that some substantial augmentation of the WMA mechanic force is called for. The company has not kept abreast of the maintenance demands of its fleet. At the end of August last year, air-conditioners on 86 of its buses were inoperative. The record shows that engine overhaul work has been neglected over the last two years. In the last rate case, concluded in June 1970, a substantial record was submitted on the need for bus body repairs which have been deferred. While, as we have indicated, we will make no attempt to furnish the company with the money for labor or materials to make up for maintenance deferred, we do think it is appropriate that the company increase its mechanic force to a level that will permit it to perform maintenance as it becomes necessary on a current basis. In making an allowance for that increase, we will not attempt to determine precisely how many additional mechanic and supervisor hours should be devoted to particular types of maintenance. Rather we will allow the expense of employing 4 new mechanic personnel, and will leave the question of how they should be utilized to the discretion of the managers of the company. We have chosen this number, which is fewer than the 6 requested by the company and more than the staff recommended, because we are not allowing the expense of the 73 engine overhauls and therefore do not expect that they will be done this year; but at the same time we believe the testimony of the company's vice president for maintenance indicates that there is a somewhat greater need for additional mechanics to keep the maintenance program current than the staff analysis indicates. We will also allow the amount of $15,263 for body work to be done outside the company's own facilities as the record shows that some work is being sent out.

7. Legal and Accounting Expense

The staff suggested disallowing the legal and accounting expense incurred in connection with preparation and presentation of this rate case. The amount the staff considered excessive was $21,000.

We do not agree the entire expense should be disallowed. The cost of the preparation and presentation of a rate case is a legitimate expense and we do not consider the expenses questioned here to have been inappropriately incurred or excessive in amount. The fees to be paid for professional assistance in connection with the rate case are basically a matter for management decision and we will not interfere with those decisions unless the amounts to be expended are clearly unwarranted. That is not the case here. However, as the $21,000 is an amount in excess of the usual costs incurred by WMA for rate case preparation, we will not require the ratepayer to bear that entire burden in one year, and for ratemaking purposes we shall require WMA to amortize this additional amount over two years.

8. Additional Street Supervisory Personnel

The company forecast an additional cost of $42,640 for the future annual period to permit it to hire six additional street supervisory personnel. Four of them would be employed as combination supervisors/dispatchers. Presently, employees performing that type of work for the company are on a six-day week, and the additional employees would allow the entire supervisor/dispatcher force to go on a five-day week, as well as to provide additional supervisory coverage for WMA's system. The remaining two people would be used as traffic checkers. The staff suggested that in view of the company's cash-short position, the company should not incur the additional expense of doubling its supervisor/dispatcher workforce as proposed. The staff also suggested that before any additional street supervisors and checkers are hired, the company should exploit the potential of its two-way radio system more fully.

We agree with the staff's recommendation in this matter. The company has approximately $95,000 invested in two-way radio equipment which includes a radio on every bus except the seven school buses. The company pays $1,300 a month for maintenance of the radio equipment. Its fleet is the only fleet in the Metropolitan area that has this feature. We believe that is a valuable tool which has not been fully used. As we see it, the radios could be used as an effective substitute for traffic checkers. Many of the functions of the supervisors/dispatchers could likewise be performed by radio. Thus, we will not only not allow additional expense for new supervisory personnel, but we will require the company to submit a report to us as to how it intends better to exploit the potential of its radio system for purposes of supervision and traffic checking.

9. Depreciation

WMA has a fleet of 138 buses. The staff submitted an exhibit showing that as of January 25, 1971, there were 14 buses out of service, which either had been out of service for such an extended period or were so badly damaged that in the staff's view the buses likely would not be returned to service during 1971. Two of the 14 buses had been out of service for two years, three more for a year or more, and the remaining have been out of service for two to ten months. The staff suggested that if they are not repaired, they should be sold, or if not sold, not carried on the books for depreciation purposes. Before the hearing concluded, the company's vice president for maintenance testified that one of the 14 buses had been repaired and returned to service and two more had been sent out for repairs and were expected to be back in service by approximately March 1st. We will disallow the depreciation expense for the future annual period for the eleven remaining buses not in service. We consider that the company's practice of simply setting aside a bus in need of major repair and leaving it out of service for an extended period is extremely detrimental to the company's ability to perform the service that is required of it. Moreover, buses which have been effectively removed from useful service, as these buses have, should not be included in the depreciation expense the ratepayer is expected to bear.

10. Insurance

In 1970, WMA was assessed a retrospective insurance premium of $73,956 in excess of the standard premium charged by its insurance carrier for public liability and property insurance. The staff estimated that for 1971 another retrospective premium of $74,274 over the standard premium of $193,457 would be assessed. The staff asserted that assessment of retrospective premiums is due to WMA's poor accident record, and took the position that some limit should be placed on the amounts to be allowed for insurance costs where those costs can be avoided by establishment of a better safety record.

We share the staff's concern with excessive insurance costs brought on by the company's poor accident record. According to the reports filed with the Commission, WMA has an accident rate substantially higher than any other regular route bus company in the area. It is clear that WMA's record can and must be improved considerably.

We will direct WMA to develop a new and comprehensive safety program. And, because we do not consider that a simple admonition to improve its safety program will get the result we believe is necessary, we will direct the company to hire the services of a safety consultant to prepare a report on the company's existing safety program and recommend the necessary improvements. We will require the report to be submitted within 90 days of the issuance of this order. It should cover every aspect of safety including driver training programs.

We will not, at this time at least, disallow the insurance costs that we are reasonably certain the company will incur, even though some of those costs might have been precluded. We are more interested in seeing the creation of a safety program for the future than in penalizing the company for past practices.

C. PROJECTED RESULTS

Using the expense and revenue assumptions as we have described them, the figures set out in Table II represent our projection of WMA's operating results at present fares in the future annual period.

TABLE II

Operating Revenue:	
Passenger Revenue	$ 2,495,165
Charter and Government Contract Revenue	1,204,265
School Subsidy Revenue	37,728
Other Operating Revenue	12,194
Total Operating Revenues	$ 3,749,352
Operating Revenue Deductions:	
Operating Expenses	$ 2,968,819
Depreciation Expense	316,238
Operating Taxes and Licenses	281,956
Operating Rents	191,271
Costs Assigned to Additional Charter Revenue	82,348
Income Taxes	-0-
Total Operating Revenue Deductions	$ 3,840,632
Net Operating Income (Loss)	$ (91,280)
Operating Ratio	102.43%
Rate of Return on Operating Revenues	(2.43%)

Interest Expense (Net)	$178,733
Return to Equity	$(270,013)

Without a fare increase, the company will lose $ 91,280 before considering an interest expense of $178,733. Therefore, an increase in fares must be allowed.

Table III shows our projection of operating results under the company's proposed fares.

TABLE III

Operating Revenue:	
Passenger Revenue	$ 2,813,289
Charter and Government Contract Revenue	1,204,265
School Subsidy Revenue	60,366
Other Operating Revenue	12,194
Total Operating Revenues	$ 4,090,114
Operating Revenue Deductions:	
Operating Expenses	$ 2,968,819
Depreciation Expense	316,238
Operating Taxes and Licenses	281,956
Operating Rents	191,271
Costs Assigned to Additional Charter Revenue	82,348
Income Taxes	4,540
Total Operating Revenue Deductions	$ 3,845,172
Net Operating Income	$ 244,942
Operating Ratio	94.01%
Rate of Return on Operating Revenues	5.99%

Interest Expense (Net)	$178,733
Return to Equity	$ 66,209

As we have indicated in a later portion of this order, we have rejected the company's proposal to eliminate fare zones and have adopted a new fare structure. Further, we have not allowed the discontinuance of the free transfer. We must therefore look to the results under the fare zone structure that we are establishing.

Table IV is our projection of operating results at a fare of 45 cents for the District of Columbia, with an interstate fare of 75 cents through the first zone in Maryland, a 10 cent increment for the next zone and five cent increments thereafter. The application of a 10 cent increment through all zones would, we believe, raise the daily commuting cost in the outer zones to levels which would undoubtedly make the private automobile an all the more attractive alternative to commuting by mass transit. This, of course, would add to the already congested traffic in the metropolitan area. Weighing the detrimental impact that loss of ridership and increased traffic would have on the bus riders, and the community as a whole, against the minimal revenue loss, we will set the interstate fare for the last two zones in Maryland at 90 and 95 cents respectively. The intrastate fare would be 55 cents for the first two zones and 65 cents for rides of more than two zones.

Under this fare structure, D. C. riders will contribute 15.8% of total regular route revenue compared with their present contribution of 15.3%. Intra-Maryland riders will contribute 10.5% compared to the present 10.2%. Interstate riders will contribute 73.2% compared with their present contribution of 73.9%. Intercity riders to points outside the Metropolitan District will contribute .5% compared with their present contribution of .6%.

One of the compelling reasons why we favor this fare structure over that proposed by the company is that under the company's proposal we estimate that ridership in the future annual period would amount to only 4,091,085 passengers, a decrease of 13.6% due to fare resistance. Under the fare structure we are authorizing, ridership during the future annual period will amount to 4,406,015 passengers, a decrease of only 7%. Thus, the fare structure we are authorizing serves to retain substantially more patronage for the company, a result which benefits the riders and the community as well.

TABLE IV

Operating Revenue:	
Passenger Revenue	$ 2,775,478
Charter and Government Contract Revenue	1,204,265
School Subsidy Revenue	52,820
Other Operating Revenue	12,194
Total Operating Revenues	$ 4,044,757
Operating Revenue Deductions:	
Operating Expenses	$ 2,968,819
Depreciation Expense	316,238
Operating Taxes and Licenses	281,956
Operating Rents	191,271
Costs Assigned to Additional Charter Revenue	82,348
Income Taxes	1,629
Total Operating Revenue Deductions	$ 3,842,261
Net Operating Income	$ 202,496
Operating Ratio	94.99%
Rate of Return on Operating Revenues	5.01%

Interest Expense (Net)	$ 178,733
Return to Equity	$ 23,763

We believe that this produces an appropriate return for WMA. It will cover operating expenses and the interest expense of $178,733 and provide a return to equity of $23,763. While this amount may seem somewhat low, we note that WMA's application requested only $2,426 return to equity. The return we are allowing is 7.98% of rate base.

While we do not believe that this amount of return will provide the company with the means to achieve financial stability, it is clear to us that a return to equity of two or three times this amount would not achieve that result. The crux of this company's stability problem lies in the lack of adequate cash flow, a difficulty that we cannot, legally or philosophically, remedy by charging higher fares. In the fares we are establishing today, the ratepayer is making his full contribution for the service provided and, if, because of accrued debt or deferred maintenance or whatever reason, the company needs funding beyond that, the company will have to look to a source other than the ratepayer.

IV

RATE STRUCTURE

A. FARE ZONE STRUCTURE

In its current application, the company proposes to eliminate all fare zones in Maryland and substitute a flat Maryland fare, both for interstate and intrastate rides.

In the last WMA rate case which concluded in Order No. 1049, issued June 17, 1970, we instructed the staff to undertake a study of the fare zone structure of WMA, as we had been advised by the staff on the record in that case that the company fare zone structure was out of date.

Based on a comprehensive study developed in response to our directive in Order 1049, the staff proposes a realignment of the Maryland fare zones. The current Maryland fare zones are made up on a route-by-route basis with the

District of Columbia constituting the first zone for all routes. Thereafter, the routes go through from 2 to 6 additional zones within Maryland. The zone sizes and incremental charges for each zone are not necessarily uniform on all routes. As a substitute for that system, the staff proposes a zone system which would retain the District of Columbia as Zone 1 and would add zones according to distances from downtown Washington. The first zone line beyond the District line would be approximately 8 miles from downtown Washington with successive zone lines drawn at 4 mile intervals beyond that line. This zone structure is similar in design to those which we have recently established for the A. B. & W. Transit Company and the W. V. & M. Coach Company. As for the intrastate zone structure, the staff's conclusion is that a flat fare in Maryland is neither necessary nor desirable and the staff proposes that the interstate zones be used for intrastate travel. The initial intrastate fare would be valid for two zones of travel with additional fare to be charged thereafter.

We are not persuaded that the flat fare proposed by the company for Maryland interstate and intrastate riders is appropriate. While the flat fare has certain advantages, such as simplicity, we believe that the advantages are outweighed by the disadvantages. The major disadvantage, of course, is that patrons riding to points just beyond the D. C.-Maryland line would be asked to pay the same fare that the patrons riding to the outer reaches of Prince Georges County pay, even though they ride some 12 miles beyond the District line. An extreme disparity between the fare paid and the distance traveled, should be avoided unless some overriding consideration justifies it. In the case of WMA's route system in Maryland, as in the case of other suburban lines of the Metropolitan area, a zone system is readily practical and we see no convincing reason why one should not be employed.

The only disadvantage we see in adopting the staff's fare zone proposal is in the lack of uniformity in the size of the increase which each rider will bear. Because of shifts in zone boundaries, increases will range from zero to fifteen cents. However, it is quite apparent that the existing fare zone boundaries must be realigned to eliminate inequity, and we feel that the varying burden upon riders is one that can be justifiably asked of them. We consider that the staff's proposed zone system will provide a reasonable basis for the establishment of an equitable fare zone structure, and we will adopt it.

B. FREE TRANSFER

WMA proposes the discontinuance of the current arrangement it has with D. C. Transit System, Inc., whereby each accepts transfers issued by the other at certain transfer points in Southeast Washington. The rider is not required to pay any additional fare upon transfer.

Varying estimates were made as to the number of persons using the free transfer between carriers. For example, the company estimated 400 persons transferring on weekdays, but an independent check on January 6, 1971, showed 616 persons transferring. Based on this check, the staff asserted that over 25% of WMA's total District of Columbia passengers use the free transfer.

Whatever the exact number, it is, by anyone's estimate, substantial. The arrangement for free transfer between the carriers was established in 1942 under Order No. 2402 of the Public Utilities Commission of the District of Columbia. The arrangement has made it possible for residents of those sections of Southeast Washington served by WMA, but not served by D. C. Transit, to move within the District of Columbia for approximately the same fare paid by other residents of the District. If the free transfer were abolished, the District of Columbia residents affected would be required to pay double the fare other District of Columbia residents pay for transportation within the District. We are not disposed to impose a substantially higher fare burden on these residents of the District of Columbia for travel within the District merely because they happen to reside in a small portion of the District served only by WMA. Therefore, we will require the continuation of the free transfer.

V

SERVICE PROBLEMS

In the WMA rate case concluded in June 1970, we commented on what seemed to us to be major deficiencies in the company's service to the public. (See Order No. 1049, p. 13.) We described those deficiencies as "inexcusable" and indicated that as long as those deficiencies remain uncorrected the return to be allowed would not be as high as it might otherwise be. It is appropriate, at this juncture, to review the steps which have been taken to remedy those deficiencies.

One of the problems involves buses not operating on schedule or not operating at all. The company's response is that failure to operate all those scheduled services was due mainly to the fact that its driver force prior to the last rate case was not up to quota. The result was that even when a driver was available he might be untrained and unfamiliar with the route and the services suffered thereby. We appreciate that there was a driver shortage and that the shortage has been, at least for the present, overcome. However, the record discloses that the driver shortage has not been the only factor contributing to the failure of the company to operate all its regular route services or to operate those services on time. During the season of heavy charter business, it is quite apparent that WMA, when faced with a choice between operating a charter and putting the bus on a regular route run, will give preference to the charter. The result is that on some days during the summer, substantial regular route runs are cut while charters are being operated during the rush hours. The company as much as admitted this.

We expect the company to do whatever is necessary to correct this situation. There are a variety of possibilities that we could suggest but we prefer to leave the solution to the ingenuity of the company. We would simply remind the company of our Regulation 60-09, which requires that when a choice must be made between using drivers and equipment in charter or regular route operations, the regular route operation must be given priority. We will also require a staff report covering the period April 1 through August 31, 1971, to be submitted to us by October 1, 1971, describing the WMA regular route operations which were not operated on time or not operated at all, and a description of the extent to which the failure to operate regular route service on schedule was due to interference from charter operations.

We continue to be concerned, as we have in the past, with the lack of general marketing carried on by WMA. It is admittedly difficult to judge whether a particular marketing expenditure will produce new ridership or will assist in retaining existing ridership, but even considering that difficulty, we are not at all impressed with the attitude of the company witnesses on the question of what the company might do to better market the services. We would like to see a more imaginative, and more aggressive program in developing new service ideas and for providing information to the public as to the service that is available.

Another major service deficiency lies in the fact that although the company has a modern fleet of air-conditioned buses, it appears to be the rule rather than the exception that air-conditioners are inoperative. By the end of last summer, the majority of the air-conditioning units were not working. The company must understand that if the ratepayer is to be expected to provide reimbursement for the cost of air-conditioning equipment, it is the responsibility of the company to see that the equipment is kept in repair so that the ratepayer gets what he pays for.

So that we may be kept fully informed on the current state of air-conditioners in this company's fleet, we will, until further notice, require the company to submit a monthly report beginning with the month of April 1971 as to the number of air-conditioners not operating in that month.

THEREFORE, IT IS ORDERED:

1. That Application No. 655 of WMA Transit Company be, and it is hereby, denied.

2. That WMA Transit Company be, and it is hereby, authorized to establish rates of fare as shown in Appendix A according to the fare zone structure as shown in Appendix B, both attached hereto and made a part hereof, effective 4:00 A.M., March 31, 1971.

3. That WMA Transit Company file appropriate revisions to its tariffs, pursuant to the authority granted herein, by March 30, 1971.

4. That WMA Transit Company post in all its buses forthwith appropriate notices indicating all fare changes pursuant to authority granted herein.

5. That WMA Transit Company shall submit to the Commission staff a monthly report indicating, for each day of the month, the number of buses with inoperative air-conditioners, the reason why each is inoperative, the effort that will be made to restore the air-conditioner to operation, and the date by which it is estimated the air-conditioner will be operative. The first report shall cover the month of April 1971 and each report shall be filed within five days of the end of the month for which the report is made.

6. That WMA Transit Company shall submit to the Commission by June 1, 1971, a report detailing a program for the most effective use of its radio system, including utilization for accident and traffic reports, passenger checks, and operations supervision.

7. That WMA Transit Company shall hire a safety consultant, subject to approval by the Commission staff, to prepare a complete analysis of every aspect of WMA's safety program, including driver training, and to specify what steps must be taken to upgrade WMA's safety program to the highest

standards possible, such report to be submitted to the Commission by July 1, 1971.

8. That the Commission staff study the effect of WMA charter operations on its regular route service and submit to us by October 1, 1971, a report describing WMA regular route operations which were not operated on time or not operated at all, in the period April 1, 1971, through August 31, 1971, and a determination of the extent to which the failure to operate regular route service on schedule was due to interference from charter operations.

BY DIRECTION OF THE COMMISSION:

George A. Avery

GEORGE A. AVERY
Chairman

HOOKER, Commissioner, not participating.

APPENDIX A

	FARES IN EFFECT PRIOR TO THIS ORDER**		COMPANY'S PROPOSED FARES	FARES AUTHORIZED HEREIN (USING NEW ZONES)**	
Intra-D.C.					
Cash	35¢		50¢	45¢	
Interline Ticket	*		*	*	
Intra-Maryland					
Two Zones	40¢		55¢	55¢	
More than Two Zones	50¢		55¢	65¢	
Interstate	T	Other			
Zones	Line	Lines		Zones	
2	60¢	60¢		2	75¢
3	70¢	65¢	Flat 80¢	3	85¢
4	80¢	70¢		4	90¢
5	90¢	75¢	Exp. T-7,9 - 90¢	5	95¢
6		80¢			
7		85¢			
Interline Ticket	*	*	*	*	
Special					
D. C. School	10¢		10¢	10¢	
Md. School					
Two Zones	20¢		30¢	30¢	
More Than Two Zones	25¢		30¢	35¢	
Md. Special School	30¢		40¢	40¢	

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* Interline ticket issued upon request, after payment of proper fare, worth 5¢ toward fare on connecting carrier. Interline ticket accepted from connecting carrier worth 5¢ toward WMA fare.

** All authorized transfers are free.

APPENDIX B

New Fare Zones in Maryland*

Route	End of Zone 2	End of Zone 3	End of Zone 4	End of Zone 5
A, D, F-2, H, N, O, P, S, W	end of line	--	--	--
B, V	Senator Ave.	end of line	--	--
C	Auth Road	end of line	--	--
F-4	Sheriff & Brightseat Roads	end of line	--	--
G	Walters Lane	Moore's Lane	Rte. 221	P.G. County Line
I	Kirby Hill Road	Silesia	Piscataway	P.G. County Line
J, K	Walters Lane	end of line	--	--
M	Suitland Parkway	end of line	--	--
R	Calvert Road	end of line	--	--
T (except T-6)	Cross Street	Glenn Dale Rd.	Rte. 197	end of Line
T-6	Cross Street	end of line	--	--

* The District of Columbia constitutes Zone 1