WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 2075

IN THE MATTER OF: Served January 9, 1980

Application of GREYHOUND AIRPORT SERVICE, INC., for Increased Rates) Case No. AP-79-13

On September 14, 1979, Greyhound Airport Service, Inc. (Greyhound), filed its WMATC Tariff No. 16 proposing to cancel its currently effective WMATC Tariff No. 15 and supplements thereto. A detailed summary of the proposed changes is contained in Order No. 2046, served October 12, 1979, and incorporated by reference herein.

Order No. 2046 suspended Greyhound's WMATC Tariff No. 16 through January 12, 1980, unless otherwise ordered by the Commission. Greyhound was directed to publish notice of this application and a date was established for the filing of protests. No protests were filed.

Essentially, Greyhound proposed to increase per-capita fares (a) between Washington National Airport and points in the Metropolitan District by $.25 per trip plus $.05 a mile (where applicable), (b) between Dulles International Airport, on the one hand, and, on the other, Washington National Airport and points in the District of Columbia by $.75 a trip, and (c) between Dulles International Airport, on the one hand, and, on the other, certain points in Montgomery County, Md., by increments varying from $1.50 to $3.50 per passenger trip. In addition, increases of from 15 to 28 percent were proposed for Greyhound's charter rates. According to Greyhound, the rate increases would produce additional revenues totaling $439,692.

In support of its requests, applicant submitted accounting testimony and exhibits based on a test year ended March 31, 1979. The staff of the Commission, working with a retained economic consulting firm, undertook an investigation of Greyhound's statements and conducted an independent review of applicant's accounts, workpapers and monthly financial reports. Several conferences were held between the staff and Greyhound's representatives, and both parties freely exchanged information and viewpoints in an effort to expedite the handling of this proceeding. During this interchange data and exhibits were developed for a test year extending from October 1, 1978, through September 30, 1979. As might be expected, revision of the test year period significantly affected the conclusions that might have been reached from consideration only of the data originally filed.

At this point, the Commission finds that the test year ended September 30, 1979, should be adopted as the point of reference for further discussion. Several factors support this choice in addition to the obvious fact that this test year is temporally closer to our date of decision than is the test year originally suggested by Greyhound. Most prominent among these other factors are wage and fuel cost increases experienced by Greyhound between March and September 1979.

Per-book data for the adopted test year show revenues of $3,019,609, operating expenses of $2,840,066, income taxes of $70,127, and net income after taxes of $109,416, for an operating ratio of 96.4 percent. Several adjustments were proposed by the staff to annualize these per-book data to end-of-the-test-year levels.

Most significantly (in terms of dollar amount), the staff would annualize revenues to reflect changes in ridership levels experienced by Greyhound during the test year. Discussions with applicant's representatives revealed that passenger increases resulted in improved load factors with little impact on expenses. Table I shows the effect of these adjustments.

TABLE I

Operating Revenues	Per Books	Adjustment	Adjusted
National Airport	$ 852,657	$ (2,473)	$ 850,184
Dulles Airport	1,781,180	110,344	1,891,524
Charter	385,771	90,656	476,427
Total	$3,019,608	$198,527	$3,218,135

During discussions with the staff, applicant questioned the propriety of adjusting revenues. (Only adjustments to expenses were proposed by Greyhound.) We are of the view that revenue adjustments are appropriate to reflect increased load factors experienced during the test year. Admittedly, maintenance of operating revenues at the annualized end-of- year level is not a mathematical certainty. Little mathematical certainty, however, is possible in the rate making process, and a regulatory agency must set rates based on the considerations described herein. At question, then, is the level of certainty required to support an adjustment to the per-book figures.

Unsupported speculation in ratemaking has consistently been held improper. In this case, however,only known and measurable changes have been considered, irrespective of their location on the income or expense side of the ledger. Simply stated, adjustments are made to actual per-book experience (a) to reflect known and measurable changes occurring during the test period and perceived to be recurring or continuing in nature or (b) to "normalize" the effect of nonrecurring or unusual phenomena experienced during the test year. Certainly, realized growth in traffic volume is as known and measurable a change as is increased fuel cost, for example, and we believe that recognition of such data markedly enhances the accuracy of revenue and rate predictions.

Turning next to expenses, Table II shows the adjustments proposed by the staff to Greyhound's per-book experience for the test year.

TABLE II

Operating Expenses	Per Books	Adjustment	Adjusted
Maintenance	$ 316,432	$ 22,273	$ 338,705
Transportation	1,645,017	175,525	1,820,542
Station	33,856	6,500	40,356
Traffic & Advertising	12,998	896	13,894
Insurance & Safety	69,805	(1,869)	67,936
Administrative & General	294,767	34,774	329,541
Depreciation	123,525	(781)	122,744
Operating Tax & Licenses	154,283	5,330	159,613
Operating Rents	189,383	(41,273)	148,110
Total	$2,840,066	$201,375	$3,041,441

These adjustments, which we hereby adopt, need be discussed only to the extent that they differ materially from those advocated by Greyhound.

The first major difference involves equipment maintenance expense. Payments for motor coach repairs are made to Greyhound's parent corporation for work done at the parent's garage. These payments involve three components: materials, labor and joint garage expense. The first two are self explanatory while the last encompasses a 15 percent markup on the cost of materials, assertedly to cover the overhead costs of ordering, storing and distributing materials. Greyhound's data reflect material expense increases of 85.6 percent and labor expense increases of 80.3 percent. Joint garage expenses, of course, should be proportional to expenditures for materials. By way of contrast, Greyhound's expenses for material and labor obtained from nonaffiliated sources (for van repairs) increased 14.4 percent and 19.7 percent, respectively. 1/

The staff asserts that no presumption of fair dealing should exist with respect to payments by a wholly-owned subsidiary to its parent. We agree. The staff suggests either eliminating payment increases to the parent from this category or reducing the company's adjustments to a percentage level equal to that paid to nonaffiliated sources. 2/ The Commission finds that the latter treatment will more accurately reflect the actual and allowable expenses of the company and, absent a showing that payments to the parent company are absolutely free from non-cost induced increases, adopts this adjustment as its own.

A similar treatment is proposed by the staff with respect to Greyhound's rental of buses from its parent. The per-book increase in this account during the test year is $57,821 or 56.8 percent. The staff asserts that this change reflects a parental decision to lease buses at rates based on current-value considerations in lieu of acquisition-cost considerations. Greyhound disputes this allegation, but it has submitted no credible evidence that otherwise explains an increase of this magnitude. Absent such an explanation, the Commission must find that applicant has not maintained its burden of proving the reasonability of this expense adjustment. Accordingly, the adjustment will be disallowed.

During the discussions between applicant's representatives and the staff, initial differences were reconciled with the notable exceptions described above. Greyhound, while reserving its right to reassert its theories on income, maintenance and leasing adjustments in future proceedings, has agreed for the purposes of this case to accept the adjustments proposed by the staff. In light of this agreement, and because our own review of the data herein warrants a finding that these adjustments are just and reasonable, the Commission hereby adopts the recommendations proposed by the staff and agreed to by Greyhound.

Table III shows the effect of the adopted adjustments and the income tax consequences thereof.

1/ Joint garage expenses are inapplicable to outside repair work.

2/ The latter treatment, reflected in Table II, would allow a corresponding 14.4 percent increase for joint garage expenses.

TABLE III

	Per Books	Adjustment	Adjusted
Operating Revenues	$3,019,609	$198,526	$3,218,135
Operating Expenses	2,840,066	201,375	3,041,441
Net Income Before Taxes	$ 179,543	$ (2,849)	$ 176,694
State & Local Taxes	12,568		12,368
Federal Income Tax 3/	57,559		56,340
Net Income After Taxes	$ 109,416		$ 107,986
Operating Ratio	96.4%		96.6%

Title II, Article XII, Section 6(a)(4) of the Compact provides that:

> It is hereby declared as a matter of legislative policy that in order to assure the Washington Metropolitan District of an adequate transportation system operating as private enterprises the carriers therein, in accordance with standards and rules prescribed by the Commission, should be afforded the opportunity of earning such return as to make the carriers attractive investments to private investors. As an incident thereto, the opportunity to earn a return of at least 6-1/2 per centum net after all taxes properly chargeable to transportation operations, including but not limited to income taxes, on gross operating revenues, shall not be considered unreasonable.

Consistent with that statement of policy, the staff and Greyhound jointly recommend that a rate increase be granted to produce an operating ratio of 93.7 percent. This ratio is an approximate midpoint between the return suggested by the above-quoted section of the Compact and the 94 percent operating ratio originally sought by the applicant. Table IV shows the increases involved in producing a 93.7 percent operating ratio.

3/ Federal income tax calculations are at 1979 rates and are made as though Greyhound was an unaffiliated company.

TABLE IV

Operating Revenue	Adjusted	Increase	After Increase
Total	$3,218,135	$227,553	$3,445,688
Operating Expenses			
Maintenance	338,705		338,705
Transportation	1,820,542		1,820,542
Station	40,356		40,356
Traffic & Advertising	13,894	7,509	21,403
Insurance & Safety	67,936		67,936
Admin. & General	329,541		329,541
Depreciation	122,744		122,744
Taxes and Licenses	159,613	4,551	164,164
Operating Rents	148,110		148,110
Total	$3,041,441	$ 12,060	$3,053,501
Net Income Before Taxes	$ 176,694	$215,493	$ 392,187
State & Local Taxes	12,368	15,085	27,453
Federal Income Tax	56,340	92,188	148,528
Total Income Taxes	$ 68,708	$107,273	$ 175,981
Net Income After Taxes	$ 107,986	$108,220	$ 216,206
Operating Ratio	96.6%		93.7%

Inasmuch as this increase appears just and reasonable and consistent with the criteria set forth in Title II, Article XII, Section 6(a)(3) of the Compact, 4/ it shall be approved.

4/ That subsection reads: "(i)n the exercise of its power to prescribe just and reasonable fares and regulations and practices relating thereto, the Commission shall give due consideration, among other factors, to the inherent advantages of transportation by such carriers; to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed; to the need, in the public interest, of adequate and efficient transportation service by such carriers at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable such carriers, under honest, economical and efficient management, to provide such service."

Finally, rates must be set to produce the required revenue increase. Greyhound has suggested certain adjustments to its current rates and has tendered an amended tariff incorporating the changes shown in Table V.

TABLE V

Service	Old Fare	Change	New Fare
Dulles - National	$4.25	$.50	$4.75
Dulles - D. C.	4.25	.50	4.75
Dulles - Bethesda	4.50	.65	5.15
Dulles - Silver Spring	4.50	.65	5.15
Dulles - Wheaton	4.50	.65	5.15

No increases would be made in charges for service to or from Washington National Airport (except between the airports) or for charter service.

Analysis of the rates proposed in Greyhound's amended WMATC Tariff No. 16 is set forth in Table VI.

TABLE VI

Rate Category	Passengers to 9/30/79	Annualized Passengers to 9/30/79	Annualized Revenues	Additional Revenues	Total Revenues
Dul.-Natl.	159,426	165,816	$ 704,718	$ 82,908	$ 787,626
Natl-Zone 1	51,072	53,119	146,077		146,077
Natl-Zone 2	42,000	43,683	141,970		141,970
Natl-Zone 3	178	185	694		694
Natl-Zone 4	2,395	2,491	10,587		10,587
Natl-Zone 5	108,803	113,164	537,529		537,529
Dulles-D.C.	244,162	253,948	1,079,279	126,974	1,206,253
Dulles-Md.	25,822	26,857	120,856	17,457	138,313
Total	633,858	659,263	$2,741,710	$227,339	$2,969,049

Average Revenue per passenger = $4.159. 5/
Passenger Increase = 4.0 percent. 6/

Total special operations revenue ($2,969,049) plus adjusted charter revenue ($476,427) produces total operating revenue of $3,445,476, an

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5/ Actual revenues determined by multiplying passengers time fares ($2,636,056.50) are divided by total passengers.

6/ Annualized revenues are divided by actual revenues.

amount differing only by $212 the total operating revenues found to be required in Table IV. Any further adjustment to the rates proposed by Greyhound would necessarily be in increments smaller than $.05 and would cause excessive inconvenience to both the carrier and the traveling public.

We note that the decision to increase only special operations fares to and from Dulles Airport reflects the applicant's judgment that fare resistance would be a factor if the rate increases were spread proportionally among Greyhound's several operations. Inasmuch as a higher level of competition exists in the charter bus market and because applicant faces severe competition from other modes at National Airport, the Commission finds that requiring a strict allocation of the increase granted herein would be counterproductive and inconsistent with the public interest.

For the foregoing reasons, the amended WMATC Tariff No. 16, issued December 20, 1979, will be approved on the fifth day following service of this order. Applicant will be directed to post notice of the approved rate changes in all facilities and vehicles serving Dulles Airport at least 48 hours prior to the effective time of the new tariff.

THEREFORE, IT IS ORDERED:

1. That WMATC Tariff No. 16 of Greyhound Airport Service, Inc., issued September 14, 1979, is hereby disapproved.

2 That WMATC Tariff No. 16 of Greyhound Airport Service, Inc., issued December 20, 1979, is hereby accepted to become effective at 12:01 a.m. on the fifth day following the date of service of this order.

3. That Greyhound Airport Service, Inc., is hereby directed to post notice of the rate changes approved herein, said notice to include the effective date and time of the changes and the information set forth in Table V of this order, (a) in all vehicles providing service from or to Dulles International Airport, (b) at the facilities of Greyhound Airport Service, Inc., located at Dulles International Airport and Washington National Airport, and (c) at the facilities of Greyhound Airport Service, Inc., located at terminals at which service is available to or from Dulles International Airport.

4. That in all other respects, this proceeding is hereby discontinued.

BY DIRECTION OF THE COMMISSION, COMISSIONERS SCHIFTER AND SHANNON:

WILLIAM H. McGILVERY
Executive Director