BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 486

IN THE MATTER OF: Served May 28, 1965

Application of Airport Transport, Inc., and Airport Transport, Inc., of Virginia, for Fare Increases.) Docket No. 83

APPEARANCES:

L. C. MAJOR, JR., Attorney for Airport Transport, Inc., and Airport Transport, Inc., of Virginia, applicants.

S. HARRISON KAHN, Attorney for Montgomery Charter Service, Inc., protestant.

HENRY G. BARTSCH, appearing for The Airport Dispatcher Service, protestant.

STEFAN C. LONG, appearing for Arlington County, Virginia, intervenor.

RUSSELL W. CUNNINGHAM, Counsel for Washington Metropolitan Area Transit Commission.

On February 4, 1965, Airport Transport, Inc., and Airport Transport, Inc., of Virginia, filed a joint application for fare increases, which application was accompanied by their WMATC Tariff No. 1 and WMATC Tariff No. 9 (cancelling WMATC Tariff No. 8), all to be effective March 8, 1965. By Order No. 450, the Commission suspended said tariffs and deferred the use of the fares stated therein until June 6, 1965, unless otherwise ordered by the Commission, pending an investigation and hearing. After appropriate notice, a formal hearing was held on April 7 and 8, 1965.

Airport Transport, Inc., of Virginia, a Virginia Corporation, is a wholly owned subsidiary of Airport Transport, Inc. Airport Transport, Inc., a Delaware Corporation, is a wholly owned subsidiary of Airport Parking Company of America, a publicly owned corporation. Airport Transport, Inc., and Airport Transport, Inc., of Virginia, have common officers and directors and both Companies are operated as though they were a single company. Applicants provide ground transportation

service for passengers traveling to or from and between the Washington National Airport and the Dulles International Airport. Operations from both Airports are conducted pursuant to an exclusive contract which applicants currently hold and have held from the Federal Aviation Agency since the date both of these Airports were opened. Under this contract, applicants are required to pay the Federal Government an annual minimum guarantee of $325,000 or a fee ranging from 15% to 18% on most of its revenue traffic originating within the Airports. For the year ending December 31, 1964, applicants paid the Federal Government fees amounting to $449,108.77. Applicants also hold authority from the Commission to engage in the transportation of passengers to and from the Dulles International and Washington National Airports within the Washington Metropolitan Transit Regulation District.

Airport Transport, Inc., of Virginia, is engaged in performing taxicab service, although it does perform some limousine service within the Commonwealth of Virginia, pursuant to authority of the Virginia State Corporation Commission. Airport Transport, Inc., is engaged in the transportation of passengers in limousines and motor buses. Applicants own and operate a fleet of 147 taxicabs, 70 limousines and 21 motor buses.

Airport Transport, Inc., proposes an increase of 15¢ per passenger for passengers making use of the group riding, door-to-door service, between the Washington National Airport, on the one hand, and points in Washington, D. C., Montgomery County and Prince Georges County, Maryland, on the other; and an increase of $1.00 in charter limousine rates for airline crews being transported between the Dulles International Airport and Washington, D. C.

Airport Transport, Inc., of Virginia, proposes a 10¢ per initial mile and 5¢ per additional half-mile, or portion thereof, increase in its existing taxicab meter rates between both Airports, on the one hand, and points within the Metropolitan District, on the other. The proposed changes in fares are compared with the present fares, as follows:

LIMOUSINE SERVICE

Door-to-door service to and from the Washington National Airport:	Present Fares	Proposed Fares
Zone 1	$1.35	$1.50
Zone 2	$1.75	$1.90
Zone 3	$2.05	$2.20
Zone 4	$2.55	$2.70
Beyond Zone 4	Zone 4 Fare plus 50¢ per mile	No change

Limousine Service (cont'd).

	Present Fares	Proposed Fares
Door-to-door service to and from the Washington National Airport (Family Group Riding)		
Two Passengers:		
Zone 2	$2.75	$2.90
Zone 3	$3.05	$3.20
Zone 4	$3.55	$3.70
Beyond Zone 4	Zone 4 fare plus 50¢ per mi	No change
Three Passengers:*		
Zone 2	$3.75	$3.90
Zone 3	$4.05	$4.20
Zone 4	$4.55	$4.70
Beyond Zone 4	Zone 4 fare plus 50¢ per mi	No change

*NOTE: $1.00 for each additional passenger over three.

Charter Rates for Airline Crews by Eleven-Passenger Limousines between Dulles International Airport and Washington, D. C.	$14.00	$15.00

TAXICAB SERVICE

First Mile	$0.50	$0.60
For each additional one-half mile	$0.20	$0.25
Each additional passenger over one	$0.60	No change

The evidence in this case consists of 268 pages of oral testimony and 40 exhibits, submitted by Morris Garnick, Certified Public Accountant, and Robert Lerner, Vice President and General Manager, on behalf of applicants; Charles E. Hammond of the Arlington County Public Utilities Commission; and Charles W. Overhouse and Melvin E. Lewis, respectively the Chief Engineer and Chief Accountant of the Commission. Other evidence relied on by the Commission is a certified financial report of applicants prepared by applicants' independent certified public accountants and transmitted to the Commission as part of the application. This report consists of a Consolidated Balance Sheet of Airport Transport, Inc., and Airport Transport, Inc., of Virginia, as of December 31, 1964, a Consolidated Income Statement of the same two companies for the year ended December 31, 1964, and a Consolidated Statement of Retained Earnings for the calendar year 1964. Applicants also submitted and served on the parties of record prior to the hearing, a prepared statement which was accepted for the record and has been considered by the Commission.

In submitting their application, applicants used the calendar year 1964 as the base period and the twelve-month period ending March 31, 1966, for the future rate year. The primary basis for the rate relief sought herein is a new labor contract which became effective November 1, 1964. The new labor contract provides for an increase in drivers' wages of seven cents an hour, through 1965, and an additional eight cents an hour, effective January 1, 1966, and a percentage increase for certain other officers and employees.

Before discussing the evidence and entering its findings, the Commission will dispose of certain legal issues raised at the hearing.

Portestant Henry G. Bartsch raised two jurisdictional objections at the outset of the hearing, moving that the proceeding be dismissed on the ground that the Commission has no jurisdiction to approve taxicab fares for one company out of a number of companies in the Metropolitan District, claiming that the Compact only authorizes this Commission to prescribe rates for the taxicab industry and that the power to prescribe does not confer authority to entertain tariffs. He also moved that the Commission is without authority to regulate taxicab fares to or from the Washington National Airport, on the ground that the Commission's authority is limited to transportation between a point in the jurisdiction of one signatory to a point in the jurisdiction of another signatory, and alleging that the Washington National Airport is under the exclusive jurisdiction of the Federal Government and, therefore, not within the jurisdiction of Virginia.

The proposition is set forth that the Commission may only "prescribe" rates, not authorize and approve a proposed rate structure. Such a theory presupposes that the taxi industry, individually or collectively may never ask for an increase in fares, but remain passive and await the initiation of a fare proceeding by the Commission. That the legislatures intended such a narrow prescription is beyond our belief. It would be utter folly for us to say that the industry is precluded from requesting the Commission to prescribe a rate structure, and if it can, as we believe, then that procedure is distinguishable from the procedure followed by applicant -- i.e., proposing a rate structure, by tariff form, and requesting Commission approval -- in procedural form only.

To be "reasonable"*, a rate must not be unjust, unreasonable, unduly preferential or unduly discriminatory. Does this preclude minor deviations in fares? We think not. Conditions, both economic and practical, may require minor variances. Two economic considerations have a direct bearing on the relationship of the taxicab rates levied by Airport Transport, Inc., of Virginia, with the rates levied by the taxicab industry in the area ingeneral.

*The standard called for in Article XII, Section 8, Washington Metropolitan Area Transit Regulation Compact.

Airport Transport, Inc., of Virginia, performs taxicab service only to and from the two Airports. Insofar as taxicab service is concerned, practically all of the return trips (more than 90%) to the Airports are non-revenue-producing dead-head trips. The second economic consideration is that applicants must pay a franchise fee of between 15% and 18% on all revenues for transportation originating at the Airports. These factors, in our opinion, are sufficient to justify a separate proceeding involving the taxicab rates of the present applicant. It should be noted that the Commission, in recognition of these economic considerations, has previously allowed applicant to charge an extra-passenger fare of sixty cents, whereas such extra-passenger fare for the taxicab industry in general, is twenty cents. The Commission has also previously allowed a five cent variance in the initial mileage charge for suburban taxis, in order that they might continue to use their local rate structure and method of computing fares.

The final jurisdictional question rests on an interpretation of pertinent portions of the Compact. Section 1(a) of Article XII, is a general grant of regulation of the "transportation for hire by any carrier of persons between any points in the Metropolitan District and to persons engaged in rendering or performing such transportation service...." Section 1(c), modified this grant by providing that the Act shall apply to taxicabs and other vehicles used in performing bona fide taxicab service with respect only to "the rate or charges for transportation from one signatory to another within the confines of the Metropolitan District...." (Emphasis added).

Section 8 authorizes the Commission to regulate rates for "transportation by taxicab only between a point in the jurisdiction of one signatory party and a point in the jurisdiction of another signatory party provided both points are within the Metropolitan District." (Emphasis added).

It is the view of protestant Bartsch that the Washington National Airport is under the exclusive jurisdiction of the United States, and therefore, not a point within the jurisdiction of a signatory to the Compact; thus, he reasons, the Commission is without jurisdiction to regulate the rate of charge for taxicab transportation between the Washington National Airport on the one hand, and the District of Columbia and the State of Maryland, on the other hand.

In 1946, the Commonwealth of Virginia enacted legislation agreeing to a new boundary line between Virginia and the District of Columbia, and consenting that exclusive jurisdiction over the Washington National Airport, subject to reservations and conditions not pertinent to this proceeding, shall be in the United States. Code of Virginia, Title 7, Chapter 1, Section 7-9.

Prior to the enactment of the Compact, intrastate taxicab fares were regulated by local jurisdiction, but interstate taxicab transportation was exempt from regulation by the Interstate Commerce Act. In order to prevent abuses, the States and the Congress agreed that this Commission should have the duty and power to regulate interstate taxicab fares and

provide for minimum insurance requirements. The Bartsch proposal would create little pockets of immunity throughout the Metropolitan area. To adopt his theory would place an interpretation upon the word "jurisdiction" much more limited and restricted than we think it deserves -- or that the law contemplates. The fiction of a "state within a state" can have no validity to prevent the Commonwealth of Virginia from exercising its power over the Federal area within its boundaries, so long as there is no interference with the jurisdiction asserted by the Federal Government. Thus, the distinction must be drawn between the exclusive jurisdiction of the Federal Government to control transportation within the confines of the Washington National Airport and the jurisdiction of the State to regulate transportation between the Washington National Airport and other places in Virginia. Thus, for the latter purpose, the Federal area is a <u>point in the jurisdiction of the signatory</u>.

It must be remembered that the delegation of the right to regulate the interstate transportation within the Metropolitan Area was made by the agreement of the States (including the District of Columbia, by its "legislature" -- the Congress of the United States), and by and with the consent and approval of the Congress. The purpose of the legislation was to promote the interests of commerce and transportation, not to take back the sovereignty that otherwise was the consequence of the 1946 legislation. When the United States, with the consent of Virginia, acquired the property upon which the Washington National Airport is located, the property did not cease to be a part of Virginia. The legislative delegation of regulatory power to this Commission did not interfere in the least with the jurisdiction of the United States within the area or its use thereof. In fact, the contract between the United States and the applicant tacitly recognized that said fares would be regulated by an agency other than the franchising agency. And in its consenting legislation, Congress said:

> "That, upon the effective date of the Compact and so long thereafter as the Compact remains effective, the applicability of the laws of the United States, and the rules, regulations and orders promulgated thereunder relating to or affecting transportation under the Compact, and to the persons engaged therein...is suspended, except as otherwise specified in the Compact, to the extent that such laws, rules, regulations and orders are inconsistent with or in duplication of the provisions of the Compact...." Sec. 3, 74 Stat. 1050.

Insofar as the Compact language is concerned, the Commission finds that the Washington National Airport is "a point within the jurisdiction of the Signatory State of Virginia."

Protestant Bartsch also questioned whether the franchise fee paid by applicant to the Federal Aviation Agency should be recognized by this Commission as a legitimate operating expense. This question was based on

his interpretation of the authority of the Administrator of the Federal Aviation Agency to base a franchise fee on operations conducted mainly off the Airport grounds. In essence, he argues that the Administrator has no such authority and that the FAA contract, to this extent at least, is illegal and therefor the Commission is not bound to recognize the fee paid by applicants as a legitimate expense. His argument goes fare beyond our statutory authority and his remedy appears to lie elsewhere.

He also questioned whether limousine service conducted door-to-door is taxicab service or a certificated operation. This question was raised and settled in Docket No. 34, which was the grandfather proceeding of Airport Transport, Inc. Our decision therein thoroughly discussed this aspect of applicants' operation, which was questioned on review by protestant, and our Order was affirmed by the United States Court of Appeals for the District of Columbia Circuit. As pointed out by the Commission in that Order, it is the type of service provided, and not the type of vehicle, which draws the distinction between certificated service and exempt (taxicab) service.

FINDINGS

The policy enunciated in the above paragraph (viz., that the type of service is the determinant rather than the type of vehicle) will be consistently followed in analyzing the engineering and accounting data submitted in this case. The applicants, although they operate as a unit, are de jure two corporate entities and provide two broad and distinct classes of service; "Airport Transport, Incorporated" operates an economy-type group-riding service, using limousines and coaches, whereas "Airport Transport, Inc., of Virginia" operates an individualized service using taximeters to determine the fare. To the extent that applicants permit its taxicabs to operate in limousine service, the Commission must recognize that the revenues and the costs related to such limousine service must be adjusted out of the taxicab company's operating figures and added to the limousine and coach company's figures.

Applicants have never maintained their records in this manner, but it will behoove them to revise their record-keeping techniques to provide this data. Necessarily, therefore, lacking detailed separation studies, the Commission recognizes that the allocations of passengers, miles, revenues, and costs made by the Public Utilities Commission of Arlington County and by the Commission staff are approximations. The Commission nevertheless will consider the operating results of each applicant separately.

In projecting the financial impact which granting or withholding the proposed fares will have on the earnings of the two applicants, ~~the~~ Commission will first enter its findings as to certain adjustments in the operating revenues and expenses of both companies.

Of the various projected operating statements submitted by the applicants, the Commission's staff, and the Arlington County Board, the Commission will adopt generally the statements presented by the Commission's staff, subject to the comments and changes set forth below.

The depreciation rates for short-lived revenue equipment indicated by applicant (30 months for taxicabs and 40 to 48 months for limousines), is acquiesced in by the Commission as long as a straight-line method is utilized. Management's own best interests dictate the optimal service life in the specific case of taxicabs and limousines in an airport service, as is apparent from the applicants' experience in 1964, when such vehicles were retained beyond the economically optimal point and incurred major repair costs. As for the twenty-one coaches owned and operated by the applicants, the Commission will permit a depreciation rate based on ten percent salvage on original cost new after nine years service (effective annual rate: 10%). In permitting use of this rate, the Commission is not unmindful of the depreciation rates required on buses owned by other carriers in the Metropolitan District (6% salvage, 12 years, effective annual rate: 7.8333%). The Commission recognizes, however, and gives primary consideration to the peculiar service requirements and specialized standards dictated by applicants' type of service as compared to the regular route operations of the other carriers.

The Commission is of the opinion that the following adjustments in the operating expense projected by its Staff, Exhibit 37, should be made:

(a) Depreciation on planned garage improvements. The Commission will allow $5,400 depreciation on applicants' planned garage improvements, which amount represents 20% of $65,000 for five-twelfths of a year.

(b) Memorial Parkway Tax and Virginia Road Tax. Applicants estimated cost of these items to be $5,400, while the staff estimated $2,000. At the hearing, applicants produced facts justifying the additional $3,400, which is allowed.

(c) Contributions to Employees' Retirement Trust. The Commission will allow $27,100 as an annual contribution to Employees' Retirement Trust as an operating expense, with the admonition to applicants that the operation of the trust must be regularized, removing the optional nature of the contribution at the year-end, substituting therefor a year-round schedule of contributions, preferably coinciding with each pay day.

(d) Estimated excess of cost to lease two-way radio equipment over cost-to-own. The Commission will not permit the interest or carrying charges inherent in a leasing arrangement to find their way above-the-line in any guise. The Commission will disallow $7,000 for this item.

(e) Management fee paid to applicants' parent company will not be recognized as an operating cost. The Commission will always allow a bona fide salary for services rendered in the operations of a carrier; it will

not countenance a percentage fee to a controlling corporation as an above-the-line cost.

(f) The fee paid by applicants to the Federal Aviation Agency, next to wages, is the largest single item of cost of applicants' operations. The contractual arrangement between the Agency and applicants obligates each party to perform certain duties. One advantage offered applicants is a so-called exclusive position at the Airports free of similar competition. In return, the contract provides for applicants to pay a "franchise" fee of 15 to 18% of gross revenues on trips originating at the Airports. Applicants' business is at the level where any additional income is subject to the 18% levy. Thus, to authorize an increase in income, the fare must be high enough to generate two dollars for every dollar needed, because of the Federal income tax laws. However, the Agency takes 18 cents of every dollar immediately on outbound trips, or an average of approximately 12% on all trips to and from the Airports. So it is that if other costs, such as labor, depreciation, etc., go up and necessitate an increase in fares, the Agency reaps the benefit of increased fares without contributing anything of value and at the same time aggravates the need for a fare case. Nor are we unaware of the possible consequences to follow. Conceivably, when the time comes for a new contract, all bidders may offer to pay an even higher percentage of gross revenues. This we could never permit to be sanctioned in a fare proceeding. Therefore, we earnestly suggest to the Agency that future contracts take this into account. As the contract terms were arrived at by arms-length transaction, we feel constrained to abide by its terms and recognize the expense attendant thereon. We are not prepared to hold, at this time, that the fee is unreasonable.

The net adjustment to operating expenses above amounts to an increase of $28,900, with $7,148 allocated to limousines and $21,752 to taxicabs.

The applicants had maintained that if they were to continue to operate under their present fare structure they would experience a net loss of some $155,000 during the future rate year. The Commission finds that, after giving effect to the adjustments outlined above, applicants (together) will earn approximately $27,900 during the future rate period, excluding any provision for income taxes. This represents an operating ratio of 99.28%, or a return on gross operating revenues of 0.72%. Such a return is not enough to cover debt service ($47,142), much less provide any return to applicants' investors; it is therefore confiscatory.

The Commission will first discuss the proposed limousine rates. As previously noted, Airport Transport, Inc., provides a group riding or economy-type service for passengers traveling to or from both Airports, by means of either motor buses or smaller sized motor vehicles referred to as limousines. The latter vehicles have a seating capacity for carrying from 7 to 11 passengers. This type of service is designed and intended primarily for use by economy-minded passengers who are unwilling to pay for applicants' more expensive taxicab service, which provides each

individual passenger exclusive and express vehicle service. The public has a choice as to which service it prefers. In some instances, and particularly on return trips to the airports, taxicab vehicles are used as limousines and the passengers are charged the limousine fares. This practice enables applicants to obtain maximum flexibility from their equipment and to effect certain overall economies. Airport Transport, Inc., proposes to increase its present limousine fares by 15¢ per passenger in its door-to-door service between the Washington National Airport on the one hand, and points in Washington, D. C., Montgomery County and Prince Georges County, Maryland, on the other. The applicant does not propose to increase its individual limousine or motor bus fares to and from the Dulles International Airport, nor does it propose to increase its point-to-point limousine fares between Washington National Airport and Montgomery County, Maryland. A review of applicants' tariffs covering transportation by limousine to and from the two Airports, reveals that on a per-mile basis the rates to and from the Dulles International Airport are lower than the rates to and from the Washington National Airport. The relative distances dictate some differential. However, the Commission does not believe that this differential should be broadened substantially. The record indicates that Airport Transport, Inc., contemplates early conversion from smaller limousines to much larger limousines. The operation of the larger limousines should enable applicant to transport more passengers in its limousine service at less cost per passenger. The record clearly shows that applicant failed to give any effect to the economies flowing from the use of limousines of greater capacity than those now in service. The Commission is of the opinion that the public interest requires that any change in limousine fares be postponed until opportunity is afforded by actual operations to test the results of operations by limousines of larger capacity.

Based on all the foregoing considerations, the Commission is of the opinion that the limousine fares should remain unchanged even if the rate of return earned by Airport Transport, Inc., is something less than a fair return; all the necessary facts for projecting an accurate return are not available at this juncture.

This leaves for discussion and decision the proposed taxicab fares.

Having found that the present rates of applicants will prove confiscatory in the future period, and having found an area of serious doubt in the projections of costs and revenue for Airport Transport, Incorporated (limousines and coaches), the Commission sets out below, in tabular form, its findings as to projected earnings of applicants for the future test period if the proposed taxicab rates were in effect. To give a complete picture of applicants' operations, in order to properly judge the issues as relevant parts of a contexture or configuration, the operating statements below will show projected results for each applicant, and the combined results.

	Airport Transport Inc., of Va. (Taxicabs)	Airport Transport Inc. (Limo & Buses)	Combined
Gross Operating Revenues Projected, With no change in fares (Exh. 37)	$1,748,643	$2,110,034	$3,858,677
Projected Effect of Proposed Taxi Fares (Exh. 35, Appendix V)	350,712	- - -	350,712
Total Operating Revenues Projected	2,099,355	2,110,034	4,209,389
Operating Expenses:			
Projected, no change in Fares (Exh.37)	1,789,037	2,012,844	3,801,881
Adjustments, discussed above	21,752	7,148	28,900
Adjustments related to fare increases-wages of dispatchers and other personnel	16,238	10,562	26,800
-Franchise Fee	63,128	- - -	63,128
Total Operating Expenses Projected	1,890,155	2,030,554	3,920,709
Projected Net Operating Revenue Before Income Taxes	209,200	79,480	288,680
Provision for Normalized Income Taxes	83,858	31,860	115,718
Projected Net Operating Income	$ 125,342	$ 47,620	$ 172,962
Projected Operating Ratios	94.03%	97.74%	95.89%
Projected Return Percentages on Gross Operating Revenues	5.97%	2.26%	4.11%

The final issue to be resolved is whether or not the fares approved herein will produce a fair and reasonable return.

The operating ratio theory has been generally accepted by the regulatory authorities as the more appropriate means of establishing a fair rate of return for the motor carrier industry. While the Interstate Commerce Commission and numerous state commissions have adopted the operating ratio theory as opposed to the rate base theory, in fixing motor carrier rates, without a statutory mandate, the legislatures of the States of Virginia and Maryland and The Congress took the unusual step of specifically requiring, by Compact, the use of the operating ratio theory.

Section 6(a)(4) of the Compact provides:

> "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 6½ 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."

We are not prepared to say in this case that the applicants could not justify a return of 6½%. Under the fare structure before us, we are not called upon to make such a decision. We have for decision a proposed fare structure which will produce a lesser return.

A brief discussion of the operating ratio theory appears in order. It is generally recognized that the theory was proposed as a means of overcoming the deficiencies which have been attributed to the general use of the ratebase theory. The term "operating ratio" may be broadly defined as the relationship between expenses and gross revenues, or, as referred to in the Compact, a return on gross operating revenues.

The reason for adoption of the operating ratio theory for the motor carrier industry was the fact that the investment or rate base theory ceased to meet the acid test of reasonable earnings.

The average motor carrier has a relatively small investment compared to total operating expenses. The investment of the motor carrier is largely confined to short-lived rolling stock. In view of the practice of equipment leasing prevailing in the industry, it is not uncommon for a motor

carrier to be able to provide adequate service with little or no investment. Consequently, there is frequently little correlation between booked investment and the standard of service rendered to the public.

Any attempt to relate a consistent and uniform rate of return to investment or rate base in the motor carrier industry is met, more frequently than not, with many frustrations. While a given rate of return on investment might produce an adequate return for one carrier, the same return could very well be inadequate to pay the cost of debt of another carrier. Furthermore, since the rate base of a given carrier is subject to rapid and major fluctuations, the rate of return will also fluctuate wildly even though the net earnings remain constant.

The industry feels immediately the impact of economic aberrations such as strikes, increased labor costs, decline in patronage, and even changes in the weather.

The net earnings of a motor carrier are drastically influenced by every minor percentage change in either projected revenues or expenses. A percentage return based solely on the much smaller rate base investment is generally inadequate to compensate the investor for the risks inherent in such fluctuations.

The motor carrier industry, in general, and the passenger transit industry in particular, is sensitive to serious competitive forces, primarily due to the convenience and comfort of the private automobile. Contrarywise, the fixed-investment type utility enjoys a substantial monopoly in its sphere of operations.

The above factors, peculiar to the motor carrier industry, and the need to devise an appropriate means to compensate the carrier for its inherent risks, lead to the abandonment of the rate base theory in favor of the operating ratio theory.

The ratio spread (between revenues and expenses), is generally fixed to allow the carrier a sufficient number of dollars to cover, among other things, (1) interest charges; (2) withdrawals or dividends large enough to pay a return on investment; (3) a contribution to surplus which may be used for modernization, including modern equipment and service extensions; (4) a cushion for cylical swings in business; and (5) the time lag between wage and other expense increases and the effective date of fare relief.

Since it is not feasible to assign a dollar value to each of the varied and sundry risks inherent in the motor carrier industry, the accepted approach is for the regulatory commission to establish a reasonable percentage spread which will compensate the carrier for its investment, its cost of money and the numerous other risks inherent in the business. The

Compact suggests that a ratio spread of "at least 6½%...shall not be considered unreasonable."

The shortcomings of applying the rate base theory to the present applicants in contrast to the fixed-type utility is clearly demonstrated by the following comparison:

	Airport Transport (Exh.36)	(a) PEPCO (1963)
Operating Expenses	$3,534,000	$76,421,000
Investment Property (depreciated)	$1,209,000	$505,775,000
Relationship of Operating Expenses to Investment in Property	2.92 times	.15 times

The importance of recognizing the basic economic disparity between applicants and a fixed-investment utility company can be clearly illustrated by the following:

	Applicants	(a)PEPCO
Gross Operating Revenue	$4,209,389	$108,016,000
Net Operating Revenue (after tax)	$ 172,962	$ 31,596,000
Approximate Rate Base (average of depreciated fixed assets plus working capital at beginning and end of year)	$1,116,000	$483,000,000
Based on above:		
Operating Ratio	95.89%	70.75%
Return on Gross Operating Revenue	4.11%	29.25%
Return on Rate Base	15.50%	6.54%

(a) Source: 1963 Annual Report, PUC, District of Columbia.

It would be misleading to measure the return of the power company by the operating ratio method because the risk resides in the large fixed investment, and the rate of compensation is properly related to the rate base; contrarywise, in the case of applicants, their risk is related to the revenue-expense turnover, and the emphasis is on covering expenses sufficiently to give some cushion in case revenues fall below the projection

and the expenses exceed the projection.

Obviously, a measure which fits one industry is not necessarily adaptable to another industry. If the power company's operating ratio above were changed to 95%, the return in terms of the rate base would shrink to only 1.12%; and if applicants' return on rate base were changed to 7%, its operating ratio would read 98.14%, providing less than 2¢ coverage for expenses for every $1.00 of revenue.

Further, suppose projections of revenue or expenses were to be overly optimistic by, say, 5%; in the case of applicants, the error ($200,000) would exceed the originally projected net operating revenue, but in the case of the power company the error ($5,000,000) would not comprise such a disastrous percentage of projected net revenues.

The business risks of applicants are not dissimilar from the risks of the motor carrier industry in general.

We have previously discussed many factors bearing on the principal risk -- that the revenues projected will not materialize and/or that the expenses will prove to be under-projected. Under the circumstances that are facing applicants, the Commission finds that the rates approved are the lowest possible consistent with the revenues and costs projected.

Examining the projected operating results of applicants from all points of view, the Commission finds that if the fare increases granted are limited to those for taxicab service, the best interests of the public and of the investors will be properly balanced -- the public, because the economy service via limousines remains unchanged in price, and the investors, because the operating ratio of 95.89%, representing a projected net operating revenue of $173,000, is not confiscatory; it will provide the funds to enable the investors to finance their debt, fend off reasonable contingencies, continue to follow its progressive policies of rendering good service to the public, and to compensate themselves sufficiently to pay dividends or to plow funds back into their enterprise for expansion, modernization, or service improvements.

Consistent with our discussion supra, the Commission further finds that the fare differential between the area taxicab industry generally and Airport Transport, Inc., of Virginia, is within the zone of reasonableness and reflects, at the least, the special fee paid by applicant to the Federal agency.

The Commission finds that the application of Airport Transport, Inc., for an increase in certain of its limousine fares should be denied for the reasons more fully set out supra; that the present taxicab fares of Airport Transport, Inc., of Virginia, are unreasonable and should be set aside; and that the proposed taxicab fares of Airport Transport, Inc., of Virginia, as set forth in its application, are just and reasonable.

The fare structure authorized herein will produce net revenues to both applicants, as an operating unit with common and joint financial needs, of approximately $173,000, or a return on gross operating revenues of 4.11%.

The Commission finds the fares authorized herein, producing net revenues of approximately $173,000, will permit servicing of the Company's debt and leave some $126,000 (3% of gross revenues), for the investors' disposition to use as: (a) a cushion for fiscal exigencies or unforeseen eventualities; (b) dividends as compensation to the investors for risks assumed; and (c) reinvestment in the business to shore up and promote the fiscal stability of applicants.

The Commission could, in the normal exercise of its judgmental function, now proceed to allocate this $126,000 among these various compensatory entitlements. However, the cracking of this sum into specific components would be creating an artificial refinement of figures and an illusion of accuracy in an area where such precision is not only impossible but unnecessary; it is sufficient that the resulting return anticipated from the rates to be granted herein will neither be excessive nor confiscatory. The Commission's judgment is that the return projected herein will fall within such a range of reasonableness.

THEREFORE, IT IS ORDERED:

1. That the application of Airport Transport, Inc., for authority to increase its limousine fares, be, and it is hereby, denied.

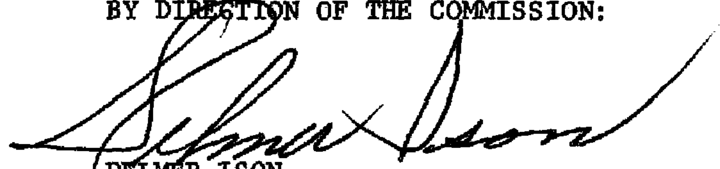
2. That the application of Airport Transport, Inc., of Virginia, seeking authority to increase its taxicab fares as shown in WMATC Tariff No. 1, be, and the same is hereby, approved, effective at 12:01 A.M., July 1, 1965.

3. That applicants post signs in conspicuous locations at the Airports, listing the rates in effect and containing a statement as to the availability of limousine service. The signs shall be submitted to this Commission for its approval as to wording and size before posting.

4. That applicants set up a regulatory-type system of accounts, together with adequate report procedures, which will properly allocate costs and revenues, on a complete and current operational basis, between Airport Transport, Inc., and Airport Transport, Inc., of Virginia. Thus, should a taxicab vehicle haul a group at limousine rates, the revenue and the costs related thereto shall be properly credited and charged to Airport Transport, Inc., with a proper contra-credit of the costs to Airport Transport, Inc., of Virginia. This system shall be subject to the approval of the Commission, per Article XII, Section 10(b) of the Compact, and shall

be installed within ninety (90) days of the date of this Order.

BY DIRECTION OF THE COMMISSION:



DELMER ISON
Executive Director