A.30619 - MG

ORIGINAL

Decision No. 44670

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern Pacific Company for authority to increase fares between San Francisco, San Jose and Los Gatos and intermediate points.	)	Application No. 30619

Appearances

E. J. Foulds and R. S. Myers, for applicant.
Marvin Handler and Howard Magee, for Peninsula Protective Association; Carl W. Anderson for City of San Carlos; Charles H. McDonald for City of Sunnyvale; James T. O'Keefe, Jr. for City of Menlo Park; Arthur J. Harzfeld for City of San Mateo; and Rex E. Benham, Myron D. Alexander, H. R. Whiting, in propria persona; protestants.
Dion R. Holm, Paul L. Beck and Jack McBride, for City Attorney's Office, City and County of San Francisco, interested party.

O P I N I O N

In this proceeding, Southern Pacific Company seeks authority to increase its fares applicable to local passenger service between San Francisco and San Jose, Los Gatos and intermediate points. These operations are commonly referred to as the Peninsula commutation service. The service is primarily designed for the mass movement to and from San Francisco of about 11,000 passengers in each direction daily except Saturdays, Sundays and holidays. Increases are sought in one-way, round-trip and all of the various types of commutation fares applicable to this local passenger service.[1]

Public hearings of the application were held and the matter was submitted after oral argument before the Commission en banc. The

[1] The various types of commutation fares are: individual monthly fare applicable for use each day of the month, individual monthly fare applicable for daily use except Sundays, individual monthly fare applicable for daily use except Saturdays and Sundays, weekly commutation fares, and 10-ride and 30-ride family commutation fares.

record made consists of 1,116 pages of transcript of testimony and 53 exhibits received. Evidence was presented by applicant, the Commission's staff, and by a commuter organization known as the Peninsula Protective Association. In addition to the Association, various municipalities and several individuals entered appearances in opposition to the requested fare increases.

Briefly summarized, applicant's contention is that the revenues from the fares now maintained for the Peninsula passenger service fail to meet the out-of-pocket costs of performing the service by over one million dollars per year; that even with the increased fares proposed, an out-of-pocket loss will be incurred of more than $500,000 per year; that in spite of advances in fares granted by the Commission in 1946 and again in the early part of 1948, applicant's net losses have continued to increase; that further upward fare adjustments are imperative to avoid serious impairment of the quality of the service now accorded; that the fare increases sought are believed to approach the point of diminishing returns beyond which the net losses from this passenger train service might be advanced rather than reduced; and that it is necessary to reduce the losses incurred to the greatest possible extent in order to place this portion of applicant's passenger train operations on a more nearly compensatory basis.

The issues raised by the protestants in this proceeding are well defined. Evidence presented by a consulting engineer employed by the Peninsula Protective Association was for the purpose of indicating, first, his estimate of the amount of out-of-pocket loss actually being incurred in the local passenger service as now conducted and, second, his estimate of the savings in operating costs that might be realized under an alternate plan of train operation. He concluded that the estimate of the out-of-pocket loss presented by

applicant was overstated by approximately $340,000 per year. He also submitted a proposal for a different type of train operation which he claimed would result in economies that would place the service on a more nearly self-sustaining basis. The Commission's staff presented estimates of out-of-pocket losses calculated on various bases, these calculations indicating that the loss amounts to about 43,000 per year in excess of applicant's estimate.

Protestants other than the Peninsula Protective Association participated only in the cross-examination of witnesses and in presenting oral argument. They urged generally that applicant had failed to present figures showing the actual recorded costs of providing the Peninsula service in that some of the expenses were mere estimates derived from records of expenses incurred in applicant's rail operations unconnected with the Peninsula local passenger service. They further asserted that applicant was not entitled to increased fares in the Peninsula area as long as its over-all railroad system earnings were adequate. A motion was made by one protestant that the application be dismissed on the ground that sole jurisdiction to adjust the passenger fares in question lies with the Interstate Commerce Commission.

The record made in this proceeding shows that the Peninsula local passenger train operation is essentially a commutation service. About 83 percent of the total passengers carried travel under commutation fares. Most of the traffic handled moves to and from San Francisco. This movement amounts to about 11,000 passengers in each direction daily, except Saturdays, Sundays and holidays. Approximately 8,000 of these passengers arrive in San Francisco during a morning peak period from 7:30 a.m. to 8:30 a.m. The return movement from San Francisco occurs from 4:00 p.m. to 6:00 p.m. when about 9,500 passengers are handled.

The movement of the Peninsula traffic involves the operation of 27 trains per day in one direction and 26 trains in the opposite direction, Mondays through Fridays. Fewer trains are scheduled on Saturdays, Sundays and holidays. To maintain the service, 28 steam locomotives, 171 coaches and 133 engine and train employees are required. The train schedules are specially designed to promote speedy handling of the large volume of traffic moving during the peak periods and in effect provide an "express" service to the major loading points. From San Francisco, for example, the first train dispatched after 5:00 p.m. is assigned to handle passengers destined to a group of the farthest points on the Peninsula line. The next train out handles passengers to the next farthest group of points and so on until the entire Peninsula line has been covered. These trains leave San Francisco at intervals of three and four minutes, depending upon the run. The parties appearing in this proceeding were in agreement that the local passenger service provided by applicant was an excellent service.

The Peninsula local passenger train operations between San Francisco and San Jose and intermediate points are conducted entirely over applicant's main line which extends beyond San Jose to Los Angeles and other points.[2] This involves coordination of the local and main line schedules and the close supervision of the local service to avoid interference with main line trains. The Peninsula local operation also involves joint use of main line tracks and other facilities, such as stations, yards, switch engines and shops, all of which are used in varying degrees in the main line passenger and in the main line and local freight services.

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[2] The Los Gatos service involves the operation of only one train per day in each direction between San Francisco and Los Gatos via the aforesaid main line to California Avenue (Palo Alto), thence via branch lines.

Applicant estimated that the proposed fares would increase the Peninsula passenger revenue by 24 percent, or about $540,000 per year. The present Peninsula fare structure and that which applicant seeks to establish will hereinafter be discussed.

Officials of applicant's operating department testified that the Peninsula service was unusually expensive to perform due to the concentration of most of the traffic in two relatively short peak periods of the day and to applicant's contractual obligations with its train service employees. The record shows that most of the equipment and engine and train crews can be used to perform revenue service only during the two peak commuter periods. The off-peak periods of the day involve the movement of a small amount of traffic. Because of this unfavorable traffic condition, only three of the crews that participate in the peak-period movements are also used in the off-peak service. Data were presented showing that this resulted in payment for a substantial amount of idle time of the peak-period crews as provided by the governing labor agreements.[3] Under the foregoing conditions, two-thirds of the Peninsula coaches and locomotives are used in revenue service only three hours per day and the remainder about six hours per day. Data were also presented showing that the high concentration of traffic in areas relatively near San Francisco requires the costly movement of coaches over a substantial portion of the line while operating empty or at materially less than seating capacity.

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[3] A typical case was cited involving the operation of a train from San Jose to San Francisco in the morning and in the opposite direction in the evening. The total elapsed time for which the employees were paid amounted to 12 hours and 10 minutes. This amount of time consisted of 3 hours and 14 minutes actual train operation and 8 hours and 56 minutes idle time. The latter time included 3 hours and 10 minutes overtime under the governing labor agreement which provides for such payment when the actual service performed is not completed within a spread of 9 hours.

The witnesses for applicant further testified that the cost of labor involved in the Peninsula service had increased by about $186,000 per year since the fares were last considered in the year 1948.[4] The evidence shows that in October, 1949, the wages of operating employees were increased by ten cents per hour, together with provision for additional vacation allowances, and the wages of non-operating employees were advanced by seven cents per hour. In addition, the latter employees were placed on a 40-hour week effective September 1, 1949, and a change in the labor agreement covering engine and train crews now requires overtime payments for time in excess of nine hours instead of ten hours as previously provided. Substantial advances were also said to have occurred in the cost of nearly all materials and supplies except fuel oil.

Evidence relative to the estimated annual revenues earned and the expenses incurred in the Peninsula local passenger service was introduced by an engineer from applicant's Bureau of Transportation Research, by engineers from the Commission's Transportation Department and by a consulting engineer retained by Peninsula Protective Association. They submitted and explained in considerable detail a substantial number of exhibits dealing generally with studies of traffic trends, analyses of revenues and expenses, depreciation, and forecasts of revenues and expenses for the year 1950 under the present and proposed fares. The estimated future results of operation as calculated from the exhibits submitted by applicant's engineer and the Commission engineer are set forth in the tabulation below. The consulting engineer's estimates of the operating results will be separately discussed for the reason that the approach employed differs from and is not directly comparable with those used by the other engineer witnesses.

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[4] Decision No. 41255 of February 24, 1948, in Application No. 28945, authorized applicant to increase its Peninsula fares by 12.5 percent.

Estimated Peninsula Revenues and Out-Of-Pocket Expenses For The Year 1950 Under Present and Proposed Fares

PRESENT FARES

Revenues	Applicant	Commission Engineer
Commutation Fares	$1,694,223	$1,824,595
One-Way and Round-Trip Fares	536,016	532,847
Proportion of Long-Haul Fares	33,156	-------
Other Operating Revenues (1)	565,096	(2) 164,180
Total Operating Revenues	$2,828,491	$2,521,622
Direct or Out-Of-Pocket Expenses		
Maintenance of Way & Structures	$ 243,734	$ 273,100
Maintenance of Equipment	1,044,938	1,176,500
Transportation	2,111,300	1,927,800
Depreciation	140,004	153,100
Payroll Taxes (3)	-------	140,000
Other Operating Expenses (4)(5)	394,154	-------
Total Out-Of-Pocket Expenses	$3,934,130	$3,670,500
Out-Of-Pocket Loss	$1,105,639	$1,148,878

PROPOSED FARES

Revenues		
Commutation Fares	$2,138,223	$2,123,897
One-Way and Round-Trip Fares	632,016	609,197
Proportion of Long-Haul Fares	33,156	-------
Other Operating Revenues (1)	565,096	(2) 164,180
Total Operating Revenues	$3,368,491	$2,897,274
Direct or Out-Of-Pocket Expenses		
Maintenance of Way & Structures	$ 243,734	$ 273,100
Maintenance of Equipment	1,044,938	1,176,500
Transportation	2,111,300	1,927,800
Depreciation	140,004	153,100
Payroll Taxes (3)	-------	140,000
Other Operating Expenses (4)(5)	394,154	-------
Total Out-Of-Pocket Expenses	$3,934,130	$3,670,500
Out-Of-Pocket Loss	$ 565,639	$ 773,226

(1) Includes revenues from the handling of baggage, mail and express and from restaurants and other leased station privileges.
(2) This amount represents the net revenue.
(3) Applicant included the payroll taxes directly in the accounts where labor costs are involved.
(4) Includes expenses involved in maintenance of newsstands, soda fountains and other station privileges.
(5) Net figure was used in the revenues by the Commission engineer.

The estimates of passenger revenues as calculated by applicant's engineer under the present and proposed fares were based upon the traffic level for the year 1949. An official of applicant's passenger traffic department testified that no loss of traffic was anticipated under the proposed fares. On the other hand, the Commission engineer estimated that the commutation traffic handled in the year 1950 under the present fares would increase by 9.3 percent over the 1949 level and that little or no change would occur in traffic moving under one-way and round-trip fares. The proposed fares, according to the engineer, would result in a drop in the 1950 traffic volume amounting to 7.1 percent in movements under commutation fares and 5.2 percent in traffic handled under the other fares.

In regard to the operating expenses, applicant's engineer and the Commission engineer testified that their estimates included only the direct costs, or what are usually known as out-of-pocket costs. These costs were defined as those that vary with the volume of traffic as distinguished from the indirect or constant costs which, for short periods of time at least, remain the same whether the facilities are utilized to capacity or only in part. Stated otherwise, the out-of-pocket costs were said to be those that would not be incurred at all if the Peninsula local passenger service should be discontinued. Such costs do not include, for example, general overhead charges and property taxes, nor any return on road and equipment investment. A fuller explanation of the procedure employed in determining the out-of-pocket costs appears necessary for a clear understanding of the engineers' estimates.

In developing the out-of-pocket costs, the engineers used the actual expenses incurred in the Peninsula service in every instance where they were directly assigned in or were otherwise

ascertainable from applicant's recorded expenses.[5] The remainder of the expenses comprising maintenance of way and structures and of equipment were not readily ascertainable from cost records covering only the Peninsula service for the reason that the recorded expenses for these items also included those incurred in the use of facilities and equipment in connection with other passenger and freight services operated by applicant. The estimated proportions of such expenses assignable to the Peninsula local passenger service were calculated either in accordance with bases generally used for such purposes or from special studies of actual operations made by the engineers for the purpose of developing basic data for computing estimates of the particular expenses involved.[6] A brief description of the calculations of the maintenance costs assigned by the engineers to the Peninsula local passenger operation will serve to illustrate the methods employed.

The engineering testimony of record shows that the cost of maintenance of way and structures is directly related to the gross ton-miles operated over the track.[7] From system records for the year 1948, applicant's engineer determined that the maintenance expenses

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5 The actual expenses in question included wages of enginemen, trainmen and station employees and the cost of fuel oil consumed, cleaning of cars, operation of signal and interlocker system, and personal injuries and property damage. The amount of these actual costs is equal to about one-half of the total out-of-pocket costs of record.

6 A number of expenses were omitted from the out-of-pocket costs for the reason that they were difficult to determine. These items included passenger traffic department and general expenses associated with the Peninsula service, cost of hauling company materials and supplies used on the Peninsula, taxes on Peninsula trackage that would not be required for other than the local passenger service and the effect of interference with freight train operations.

7 A gross ton-mile is a measure of the number of tons of motive power and rolling stock moved one mile in transportation service. The amount of the annual gross ton-miles involved in the Peninsula local passenger service was calculated by determining the actual mileage operated by each passenger train in the service and by multiplying the individual figures by the total weight in tons of the locomotive, tender and cars comprising the respective trains.

for the system operations, adjusted to reflect current costs, were equal to a unit cost of 51.75 cents per 1,000 gross ton-miles. Based on special studies, he calculated that 80 percent of the cost, or 41.38 cents, represented the out-of-pocket portion, or the amount that varied with the volume of traffic passing over the track. On the other hand, the Commission engineer based his calculations on the average annual cost of such maintenance for the last twenty years on applicant's Coast Division[8] with adjustments for current cost levels. On this basis, the unit cost amounted to 74.5 cents per 1,000 gross ton-miles. The Commission engineer developed that the out-of-pocket portion of the cost amounted to 70 percent, or 52.2 cents. The out-of-pocket unit costs were applied to the estimated gross ton-miles for the Peninsula local passenger service for the year 1950 to determine the annual cost of wear and tear on the Peninsula track and structures that was directly attributable to the movements of the local passenger trains.

With respect to maintenance of equipment (locomotives and cars), the two engineers employed different methods for calculating the repair costs assignable to the Peninsula service. Locomotive repair costs, according to applicant's engineer, are directly related to the locomotive-miles operated and to the nature of the service performed. Fuel consumption was said to be a reliable index of the nature or relative severity of the service and of the repairs resulting therefrom. In calculating the costs, he first deducted from the system repair costs for steam locomotives an amount based on ten cents per locomotive-mile to compensate for repairs said to be influenced by long distance movements which are not encountered in the Peninsula service. The remainder of the system expense was

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[8] The Coast Division extends from San Francisco to Santa Barbara, inclusive, a distance of 367 miles. It includes the Peninsula territory herein involved.

reduced to unit repair costs per locomotive-mile and per gallon of fuel consumed amounting to 10.0 cents and 4.02 cents, respectively. The estimated locomotive repair costs were calculated by applying the respective unit costs to the annual number of locomotive-miles operated and the amount of fuel consumed in the Peninsula service.[9] The Commission engineer considered that locomotive repair costs were directly related to locomotive-miles and locomotive ton-miles operated. He reduced the system repair costs to unit costs per locomotive-mile and per 1,000 locomotive ton-miles amounting to 79.9 cents and $2.82, respectively. In the calculations, fifty percent weight was given to each unit cost to compensate for locomotives used in the Peninsula service that are smaller than those employed in the general system operations. The respective unit costs were applied to the annual locomotive-miles and ton-miles operated in the Peninsula local passenger service to develop the repair costs assignable thereto.

The cost of car repairs was said by applicant's engineer to be directly related to the car-miles and gross ton-miles (cars) operated. He calculated that the system car repair costs were equal to 3.68 cents per car-mile and 54.23 cents per 1,000 gross ton-miles. The Commission engineer considered that the costs in question were directly related to the car-miles operated. He determined that on this basis the system unit cost amounted to 8.0 cents per car-mile. The engineers calculated the car repair costs assigned to the Peninsula operation by applying the respective unit costs to the annual car-miles and gross ton-miles involved in the Peninsula service. The witnesses pointed out that Pullman cars were maintained

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[9] The actual amount of fuel consumed by Peninsula line-haul locomotives was obtained from records maintained by applicant. The amount of fuel consumed by yard locomotives directly in connection with the Peninsula local passenger service was developed through a special study of actual operations for a one-week period.

by the Pullman Company and that applicant's system expenses did not include repair costs for such cars. It was conceded that the system costs did include maintenance expenses for business, parlor and dining cars and the air conditioning units therein. Applicant's engineer testified, however, that the system unit costs used in his calculations were lower than those for the coaches used in the Peninsula service. He indicated that this had been determined by means of test studies at various times of the actual cost of repairs made on Peninsula cars.

The so-called "transportation" group of accounts reflect the greatest amount shown for any of the accounts included in the engineers' estimates of the Peninsula out-of-pocket costs. This account includes such expenses as the wages of engine, train and station employees and the cost of fuel consumed, cleaning of cars, signal system and yard service. Of the total Peninsula transportation expenses calculated by the engineers, about 73 percent consists of the actual costs incurred in rendering the local passenger service. The others were incurred in connection with facilities that are also used by other services operated by applicant. Calculations of the portions of the latter expenses that are assignable to the Peninsula service were made under various bases directly related to the expenses. It should be pointed out that in the year 1949 the actual payments made by applicant for injuries to persons chargeable to the Peninsula service amounted to $154,790. Applicant's engineer included this amount in his cost estimates. The Commission engineer developed that personal injury payments over the last four years averaged $50,000 per year and he used that figure in his calculations.

Although applicant's engineer and the Commission engineer employed different methods, their final calculations of the amount of the total annual out-of-pocket loss incurred in rendering the

Peninsula local passenger service showed a difference of only $43,000. Of this difference, about $33,000 is attributable to allowance of that amount in applicant's revenue estimates as the proportion of the revenue earned by the Peninsula service in connection with passenger movements to and from points beyond the Peninsula area. Similar allowance was not made in the other engineer's estimate.

Protestants generally contended that the estimates of the costs incurred in performing the Peninsula service submitted by applicant and the Commission engineer were not reliable. They asserted that substantial items of operating expenses, such as maintenance of way and structures and locomotive and car repairs were based solely on applicant's railroad system expenses and that they had not been shown to be representative of those actually incurred in rendering the Peninsula service. It was also contended that the increased costs resulting from advances in wages and the establishment of a 40-hour week for nonoperating employees should not be allowed in the Peninsula expenses for the reason that this Commission as well as the Interstate Commerce Commission took the entire passenger deficit into consideration when the railroads, including applicant, were last authorized to increase their freight rates.[10] Protestants further contended that the cash value of free transportation accorded to a large number of applicant's employees should be taken into consideration in the Peninsula revenues.[11] A motion was made that the

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[10] The increases in interstate railroad freight rates were authorized by the Interstate Commerce Commission in Ex Parte No. 168, Increased Freight Rates, 1948, (276 I.C.C. 9). The increases in California intrastate freight rates were authorized in this Commission's Decision No. 43816 of February 15, 1950, in Application No. 29921.

[11] The monetary value of free or reduced rate transportation in the Peninsula service is hereinafter considered. Section 17(a)3 of the Public Utilities Act authorizes common carriers to issue free or reduced rate transportation to their officers and employees and other specified persons.

Commission defer rendering its decision in this matter until additional studies of revenues and expenses were made.

The record contains an unusual amount of competent engineering testimony showing what may be termed the minimum costs that should be assigned to the Peninsula service. It is true that in some instances the Peninsula costs were not taken directly from records covering only the Peninsula expenses. It is obvious, however, that a railroad cannot maintain a precise record of the actual costs involved in employing a unit of its property in a particular service when that unit is also used in connection with other services. When operations over a segment of railroad involve joint use of such facilities as tracks, repair shops and signal systems, cost finding as applied to a particular service necessarily involves the exercise of informed engineering judgment. The Interstate Commerce Commission has said in similar cases that the nature of the problem was such that the best possible result was a reasonable approximation. It has uniformly been the practice of this Commission and the Interstate Commerce Commission to rely upon competent cost studies of the kind presented in this proceeding. The Commission engineer testified that the making of further cost analyses would not serve any useful purpose.

In regard to protestants' other contentions, the record shows that the cost of the wage adjustments and the 40-hour week amounts to about $136,000 per year; that the net annual cost of transporting applicant's employees under free and reduced rates amounts to approximately $40,000 per year; and that the loss on the movement of traffic in the head-end cars was said to be about $60,000 per year. If these amounts were excluded, the annual out-of-pocket loss on the Peninsula service calculated by applicant's engineer and the Commission engineer under the present fares would amount to $820,000 and $863,000, respectively.

Exhibits dealing with the estimated results of operation of the Peninsula service were also submitted by the consulting engineer retained by the Peninsula Protective Association. His calculations were based upon analyses of the various cost and operating data presented by applicant and the Commission engineer. The consulting engineer stated that his studies clearly showed that the Peninsula service was being conducted at a serious loss. He contended, however, that the loss was not as great as indicated by applicant and the Commission engineer. Exhibits were submitted by the consultant purporting to show the average passenger revenue and the out-of-pocket expenses per one-way train trip made in the peak and off-peak periods. The consulting engineer's calculations indicated that the annual out-of-pocket loss on the Peninsula service under the present fares amounted to about $765,000, or approximately $340,000 per year less than the estimates of the other engineer witnesses. He asserted that his figures indicated that the principal loss on the Peninsula operations was attributable to the off-peak service rather than to the peak commuter service.

On cross-examination, it was revealed that this engineer's calculations resulted in a substantial understatement of the estimated out-of-pocket costs per train trip, particularly in connection with wage rates and payroll taxes. It appears that if the necessary corrections were made in the calculations, his study would indicate an annual out-of-pocket loss on the Peninsula service approximating that developed by applicant and by the Commission engineer. In regard to the consulting engineer's statement relative to the loss on the off-peak service, it should be pointed out that applicant seeks authority herein to increase not only the commutation fares but all other Peninsula fares as well.

The consulting engineer also challenged applicant's calculations of the out-of-pocket costs. He pointed out that the bases used for developing the maintenance costs in this proceeding were substantially higher than those employed when the Peninsula fares were last considered (Decision No. 41255 of February 24, 1948, in Application No. 28945). Applicant's engineer explained the differences involved.[12] Evidence was submitted showing that the bases now employed for calculating out-of-pocket expenses compared favorably under current conditions with those used by the staff of the Interstate Commerce Commission.

A different method of operating the Peninsula service was proposed by the consulting engineer which he claimed would result in a material reduction of the out-of-pocket loss. He suggested the operation of trains of self-propelled diesel-powered rail cars instead of steam trains during the off-peak periods. From 20 to 25 such cars costing about $128,000 each were said to be required for the service. The engineer stated that he did not know if the diesel operation was practical and that he suggested it for applicant's consideration as a possible means of reducing the Peninsula expenses. He estimated that the out-of-pocket cost of the diesel-car service would amount to about $392,000 less than that of the steam train operation. The engineer also suggested that the steam train now operating between San Francisco and Los Gatos be stopped at California Avenue (Palo Alto) and that a connecting train of the diesel cars be placed in service between that point and Los Gatos. He indicated

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12 The testimony shows that the only costs available at the time were those incurred during the war years and immediately thereafter. Applicant considered them too costly for rate-fixing purposes and, instead, the cost calculations were based upon the prewar expenses as adjusted to reflect the then current cost levels. The adjustments made were said to be ultraconservative. For example, the 1937-1941 base costs of materials and supplies were increased by only 12.5 percent to reflect 1948 levels.

that the suggested operation would cost about $11,000 per year less than the present steam train service.

On cross-examination, serious deficiencies were developed in the consulting engineer's calculations which resulted in substantial understatement of the costs and largely offset the estimated savings. In the case of Los Gatos service, the amount of the understatement of the costs more than offsets the anticipated savings. In addition, witnesses for applicant presented evidence that the suggested diesel operation was not practical, that the cost economies claimed for the diesel cars could not be realized under the Peninsula operating conditions, and that the large investment involved in acquiring the cars was not warranted by the small reduction in costs that could possibly be anticipated.

Applicant's operating and traffic officials testified that serious efforts had been made to reduce the Peninsula operating expenses and to increase the patronage during the off-peak periods. Studies were made of the possibility of stopping five southbound commute trains at California Avenue (Palo Alto) instead of operating them through to San Jose. Under this plan, the five trains would no longer serve the territory beyond California Avenue to and including San Jose, where they handle about 800 passengers per day. Assertedly, the resulting reduction in service would cause a substantial loss of traffic that would more than offset the estimated savings in cost. Substitution of 19 diesel locomotives costing $6,650,000 for steam locomotives was also considered. The studies showed that the annual mileage per locomotive that could be obtained in the Peninsula service was not great enough to permit realization of substantial economies from the use of diesel locomotives. It was also indicated that despite reductions in one-way and round-trip fares and the establishment of family fares the off-peak traffic had steadily declined since the war.

The Commission engineer also considered ways and means of reducing the Peninsula operating expenses. He concluded that substantial reduction of the expenses could be obtained only through curtailment of the service. He estimated that the discontinuance of four trains in each direction per day during the peak periods would decrease the expenses about $200,000 per year. He did not recommend that this be done for the reason that the service would be materially impaired. It was pointed out that coaches would have to be added to some of the other trains and that existing station facilities were inadequate to handle the longer trains.

We turn now to consideration of the present and proposed Peninsula fare structures. In addition to one-way and round-trip fares, both structures provide for monthly commutation tickets good for use each day of the month, each day except Sundays, and each day except Saturdays and Sundays (the so-called monthly 5-day week ticket); and for weekly commutation and 10-ride and 30-ride family commutation tickets. The aforesaid monthly (daily use) fares are based upon scales of rates per mile that decrease as the distance increases. These scales are set forth in the margin.[13] The other

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[13] The present and proposed mileage scales in question are as follows:

Present Basis			Proposed Basis		
Miles Over	But not Over	Rates per Mile	Miles Over	But not Over	Rates per Mile
1	10	See Note 1	1	16	See Note 2
10	14	$ .0094	16	18	$ .012
14	18	.0093	18	22	.0118
18	22	.0092	22	26	.0115
22	26	.0091	26	30	.011
26	30	.0090	30	34	.0107
30	34	.0089	34	38	.0104
34	38	.0088	38	42	.01
38	42	.0087	42	46	.0096
42	46	.0086	46		.0094
46		.0085			

Note 1. - Minimum fare of $6.00 applies.
Note 2. - Minimum fare of $11.15 proposed.

commutation fares, which involve lesser amounts of service, are based upon percentages of the monthly (daily use) fares as shown in the margin.[14]

The bulk of the Peninsula commutation traffic moves to and from San Francisco under the monthly 5-day week fares. Except for a few short hauls, these fares are at present equal to rates per mile that are from 52.5 percent to 56.6 percent of the rate per mile of the present round-trip fares. Under the proposed fares, the per-mile rates range from 51.6 percent to 65.8 percent of the sought increased basis for round-trip fares. A comparison of the rates per mile for the present and proposed monthly 5-day week fares applicable between San Francisco and representative Peninsula points is set forth below:

	Miles (One-way)	Rates in Cents per Mile	
		Present Fares	Proposed Fares
South San Francisco	9.3	1.32	(a) 2.46
San Bruno	11.0	1.14	(a) 2.08
Broadway	15.2	1.12	(a) 1.50
Burlingame	16.3	1.12	1.48
San Mateo	17.9	1.12	1.48
Belmont	21.9	1.12	1.45
Redwood City	25.4	1.09	1.42
Palo Alto	30.1	1.08	1.32
Sunnyvale	38.8	1.06	1.23
San Jose	46.9	1.04	1.16
Los Gatos	50.6	1.04	1.16

(a) These rates are based upon the minimum fare of $9.90 proposed for these points.

The proposed advances in the monthly 5-day week fares range from $2.25 to $3.15 per month, except for the few short-haul stations where a minimum fare would be established. At the latter points, the increases range from $2.55 to $4.60 per month.

Comparisons of the proposed Peninsula commutation fares with those maintained by other rail lines in California and in

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[14] The types of present and proposed fares and the percentages of the monthly (daily use) fares are as follows: monthly good each day except Sundays, 94 percent; monthly good each day except Saturdays and Sundays, 88 percent; weekly commutation, 25 percent; 10-ride family commutation, 27 percent; and 30-ride family commutation, 73 percent.

eastern territory were submitted. These data were said to show that the increased fares sought for the Peninsula area were among the lowest in the nation. No evidence was presented, however, indicating that the costs, traffic conditions and other factors influencing the volume of the fares were comparable. The one-way coach fares would be increased from the present level of 2.2 cents per mile to the level of 2.5 cents per mile which applicant maintains throughout the rest of the State. Likewise, the round-trip fares would be made on the state-wide basis of 180 percent of the one-way coach fares instead of on the present basis of 166-2/3 percent.

The minimum commutation fares sought between San Francisco and six short-haul Peninsula points are out of line with the rest of the proposed fare structure. For commuters traveling five days per week between San Francisco and South San Francisco, for example, the increased round-trip fares herein proposed would afford a monthly charge lower than the sought minimum commutation fares. No substantial reasons have been made to appear why the increase in commutation fares in question should materially exceed the percentagewise advance sought for Burlingame, the first point beyond the minimum fare zone. Grading of the Burlingame fare basis into this zone would produce minimum commutation fares, for example, of $8.00 for monthly (daily use) tickets and $7.05 for monthly (5-day week) tickets instead of $11.15 and $9.90, respectively, as proposed. Minimum commutation fares constructed on this basis appear to be appropriate.

According to the evidence, applicant maintains from and to San Francisco fares designed to meet the needs of commuters who work five days per week. Similar fares have not been extended to commuters who travel from and to points other than San Francisco, such as between Palo Alto and San Jose. No substantial reason appears for this difference in treatment. The 5-day week is now almost universally observed by business concerns. Applicant should give serious

consideration to the establishment of monthly 5-day week fares for commuters moving from and to Peninsula points other than San Francisco.

An economist on the staff of Stanford Research Institute introduced a study of the economic factors pertaining to Santa Clara and San Mateo Counties believed to have a bearing on applicant's proposal.[15] The introduction of studies of such a nature is not uncommon, especially in proceedings involving the fixing of maximum reasonable rates. In this matter, however, the proposed fares are not expected to cover the out-of-pocket costs and it appears that no particular consideration need be given the study in question.

The record made in this proceeding has been carefully reviewed. Likewise, protestants' objections have been fully considered. Competent engineering studies of the revenues and expenses involved in the Peninsula service were presented. Although the expenses were necessarily based in part on estimates, painstaking efforts were made by the engineers to develop directly related bases for the calculations. The results achieved appear to be reasonable. According to the engineers' studies, the present Peninsula fares are insufficient to cover the out-of-pocket cost of providing the service by over one million dollars per year. Protestants contended, however, that the cost of wage adjustments and the 40-hour week, the cost of transporting applicant's employees and the loss incurred in the transportation of traffic in head-end cars should not be allowed in the engineers' cost estimates for reasons previously discussed. Elimination of these items would reduce the out-of-pocket loss calculated by the engineers to approximately $620,000 per year. Applicant anticipates that little or no traffic will be lost as a result of the fare increases. Its

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[15] According to the record, the Institute is a nonprofit organization engaged in research activities in the fields of industry, finance and government. It is affiliated with Stanford University. The study was prepared by the staff of the Institute at the request of applicant.

estimate of the additional revenue that would be realized under the proposed fares, when adjusted to reflect the reduction in the sought minimum fares hereinabove discussed, amounts to $515,000 per year. Applicant's officials stated that greater fare increases are not being sought because they believe that the proposed fares approach the point of diminishing returns under current conditions. The evidence is convincing that the proposed fares will yield an increase in revenue that amounts to substantially less than the operating loss incurred on the Peninsula operations and that the additional revenue is needed to reduce the loss and to avoid impairment of a necessary service. No factual showing has been offered to indicate that the proposed fares, with modification of the minimum fares, will be unreasonable in themselves or that they will be higher than justified by the value of the service under present conditions. It does not appear that fares equal to the per-mile bases herein proposed for the bulk of the Peninsula traffic would cause any appreciable diversion of passengers to other means of transportation. The record is convincing that, with revision of the minimum commutation fares as hereinbefore indicated, the proposed fare increases are not unreasonable and should be authorized.

A number of motions remain for disposition. A written motion was filed by one protestant for dismissal of the application on the ground that the Interstate Commerce Commission has sole jurisdiction over the proposed adjustment of Peninsula fares. Only California intrastate fares are involved in this proceeding. The right of the State to regulate the intrastate rates of interstate carriers is well established. Another protestant urged that studies be made of the earning position of applicant's system, California intrastate and Coast Division operations and of the possibilities of increasing Peninsula revenues and reducing the expenses. Another party moved for the dismissal of the application on the ground that

the sought increases were not necessary as long as applicant's overall system earnings were adequate. Applicant does not operate local commuter train service between points other than in the Peninsula area. To require a carrier to maintain a necessary service of this nature at the out-of-pocket loss shown by the record made herein would impose an undue burden upon applicant's other traffic and the shipping and traveling public generally. In regard to the possibility of increasing the revenues and decreasing the expenses on the Peninsula service, the record indicates that reasonable efforts to do so have been made by applicant. The motions in question will be denied.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that increased fares to the extent indicated in the foregoing opinion and as provided by the order herein have been justified; and that minimum commutation fares in excess of those authorized herein have not been justified.

O R D E R

Based on the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Southern Pacific Company be and it is hereby authorized to establish, within sixty (60) days after the effective date of this order, increased local passenger fares between San Francisco and San Jose and Los Gatos and intermediate points as proposed in the application filed in this proceeding, subject to the following exceptions:

1. From or to San Francisco, monthly (daily use) commutation fares for distances of 16 miles and under shall be computed in accordance with the following rates per mile in lieu of the basis shown in the application: Fourteen miles

and under, 1.24 cents per mile, and over 14 miles but not over 16 miles, 1.21 cents per mile; subject to a minimum fare of $8.00. (For distances over 16 miles, the rates per mile shown in the application will apply.)

2. From or to San Francisco, in lieu of those shown in the application the minimum commutation fares applicable in connection with monthly (except Sundays), monthly (except Saturdays and Sundays), and weekly commutation fares, and 10-ride and 30-ride family fares shall be determined by applying the respective percentages set forth in the application to the minimum fare specified in paragraph 1 hereof.

IT IS HEREBY FURTHER ORDERED that, in all other respects, the above-entitled application be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the various motions referred to in the foregoing opinion, including the written motion filed December 19, 1949, by Myron D. Alexander, an individual, be and they are and each of them is hereby denied.

This order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 15th day of August, 1950.

R. E. Mitchell
Justus F. Craemer
Everett C. Mitchell
Kenneth Peters
Commissioners