

ORIGINAL

Decision No. 45956

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE PULLMAN COMPANY For Authority,)
under Sections 15 and 63(a) of the) Application No. 32410
Public Utilities Act, to increase)
rates.)

Appearances

Clair MacLeod and Herbert S. Anderson,
for applicant.
T. A. Hopkins and Boris H. Lakusta,
for the Commission's staff.

O P I N I O N

The Pullman Company is a common carrier engaged in the operation of railroad cars, containing sleeping and seating accommodations, over various railroad lines within the State of California. By this application it seeks authority to increase, on less than statutory notice, its present fares, rates and charges by 15 percent.¹

Public hearing was held at San Francisco on June 29, 1951, before Commissioner Huls and Examiner Lake.

Applicant alleges that the need for the increase herein sought was occasioned by increased costs of operation. According to the record, applicant has incurred increased labor costs each

¹ The proposed increase is identical with that established by the applicant on interstate traffic effective June 1, 1951. Authority to establish like increases is being sought from or has been granted by other state regulatory bodies generally throughout the nation.

Typical of the results of the increase herein sought is the following: The present one-way lower berth fare between San Francisco and Los Angeles is \$4.10. The proposed fare would be \$4.70. The fares shown are exclusive of federal tax.

year since 1948, when its fares were last adjusted.² The record shows that the 1948 and 1949 annual increases in labor costs amounted to 6.5 percent and 6 percent, respectively, while the 1950 increases were comparatively small. In 1951 applicant negotiated labor agreements with its employees, providing, in addition to a 12½ percent per hour wage increase, numerous rule changes involving a reduction of the basic work month and providing for periodic wage adjustments based upon changes in the cost of living index. It was estimated that the 1951 wage increase will add to the company's system-wide labor costs \$11,711,905 over that experienced in 1950. The ratios of labor costs to gross operating revenues for the years 1948, 1949, 1950 and the first four months of 1951 were shown to be approximately 70, 79, 81 and 85 percent, respectively.

According to a witness for applicant, the wholesale commodity price index for materials and supplies, which is commonly used by railroads, increased 15.6 percent during the period January to December, 1950. On the basis of purchases being made uniformly during the year 1951 and at the December 31, 1950, price level, it was estimated by this witness that the cost of materials and supplies would be increased 7.8 percent in 1951 over 1950. This would add to the system's expenses in 1951, he stated, approximately \$1,466,686.

Car rentals payable to the railroads for new lightweight equipment, according to the witness, will be increased in 1951 by \$1,666,574 more than that experienced in 1950. The total anticipated increase in annual expenses would be \$14,845,165 or about 12 percent of the company's 1950 operating expenses.

² Applicant's fares for seat and certain room accommodations were increased effective June 1, 1948. Those increases were authorized by the Commission in Decision No. 41642, dated May 25, 1948, in Application No. 29303 (unreported).

With the increased costs of operations heretofore referred to, applicant's system operations for the year 1951 would, according to the application, incur deficits of \$29,063,135 under present fares and \$13,883,940 under proposed fares.³ The proposed fares would not produce additional revenue sufficient to offset the increased expenses.

For California operations conducted with intrastate trains, the actual revenues and expenses for 1950 and those anticipated for 1951 as indicated in the exhibits of record are as follows:

	<u>Under Present Fares</u>		<u>Under Proposed</u>
	<u>1950</u>	<u>1951</u>	<u>Fares</u>
Revenues	\$1,546,572	\$1,546,572	(1)\$1,778,558
Expenses	2,019,690	2,262,053	2,262,053
Deficits	473,118	715,481	483,495
Operating Ratios	130.59%	146.26%	127.18%

(1) Based upon the 1950 volume of business.

A witness for applicant pointed out that the revenues shown were overstated in that they included certain revenues received from passengers traveling in interstate commerce on intrastate trains. In addition, he stated, that approximately \$32,000 of revenues derived from intrastate passengers traveling on interstate trains had been omitted because no accurate apportionment of the expense for this operation was available.

Expenses for system operations, the witness stated, were segregated in accordance with the classification of accounts prescribed by the Interstate Commerce Commission. Allocation of these expenses, he said, between the applicant and the railroads for the various services performed by each, was made in accordance with a

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Under operating agreements the rail lines are required to make up the deficits of this applicant.

uniform service contract between the company and the rail lines.⁴ The expenses for intrastate operations were derived, according to the testimony of the witness, by allocating to the California intrastate operations the average per-car expense experienced in system operations for each class of car operated.

The increases in the expenses for California operations will exceed by \$10,377 the estimated increase in revenues which would result from the proposed fares.

In order to test the reliability of the California estimates of operating results, the witness stated that studies had been made of California trains operating different equipment under average conditions.⁵ The results of these tests indicated that for California intrastate operations the expenses are greater than those used by the applicant in determining the estimated operating results for 1951. Assertedly, the greater expense is occasioned because California operating conditions, while as favorable as those experienced generally throughout the Pullman system, involve comparatively short runs which are more costly to perform than operations on runs of longer distances.⁶

⁴ The uniform service contract referred to above became effective July 1, 1949, as a result of an antitrust decree which provided that the applicant enter into uniform and nondiscriminatory contracts with the railroads. It was approved by the Interstate Commerce Commission August 22, 1949, In Re Proposal Pooling of Railroad Earnings and Service Involved in Operation of The Pullman Company under Railroad Ownership, 276, I.C.C. 5.

⁵ The studies were conducted during July and August and November and December, 1950.

⁶ The system-wide cost methods used in conjunction with applicant's showing were said to be based upon operations conducted on an average mileage greater than the average mileage experienced on California operations.

Evidence was introduced purporting to show the value of intrastate property necessary to conduct an adequate and efficient service in California. This estimate was founded upon the value determined by the Board of Equalization of the State of California for tax assessing purposes. According to the witness, the current depreciated cost of operating properties to the applicant was not available and, therefore, the method used was the best that could be developed.

In determining a rate base the principal factors to be considered are (a) what are the properties necessary to the operation of an adequate and efficient service, and (b) what is the depreciated value of such properties. The necessity of establishing a rate base in proceedings of this kind is to determine whether the fare structure will produce sufficient net revenue to earn a reasonable rate of return on the investment. The evidence offered by applicant did not supply sufficient information from which an acceptable rate base could be determined.

No one opposed the granting of the application.

It is clear that applicant's present fares, rates and charges are insufficient to return the cost of operations as disclosed on this record. The increase sought would provide needed additional revenues but would not offset the substantial deficits. Although the applicant did not establish an acceptable rate base it is clear from the evidence that the increased revenues under the proposed fares would be less than the increased expenses. In the circumstances, and particularly in view of the substantial deficits being incurred, we will not withhold the relief sought because of applicant's failure to establish a rate base. The application will be granted.

Upon careful consideration of all the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the increase sought in the above-numbered application is justified. The applicant requested that, should the sought authority be granted, it be permitted to establish the increase in its fares, rates and charges on less than statutory notice and to depart from the terms of the Commission's Tariff Circular No. 2 by publishing the proposed fares, rates and charges in master-table supplements to its tariffs. These requests appear reasonable and will be granted.

O R D E R

This application having been heard and submitted, upon full consideration of the record, and based upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that The Pullman Company be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the increased fares, rates and charges proposed in the application herein.

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby authorized to publish said increased fares, rates and charges without regard to the terms and rules of Tariff Circular No. 2 to the extent necessary to carry out the effects of the order herein.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be void unless the fares, rates and charges

authorized in this order are published, filed and made effective within sixty (60) days from the date hereof.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 17th day of July, 1951.

R. J. [Signature]
Justin J. Casper
Harold Kula
[Signature]
[Signature]
Commissioners