

Public hearing of the applications was held at San Francisco on July 1, 2 and 3, 1952, before Commissioner Potter and Examiner Jacopi. Evidence was offered by officials of the individual applicants and by transportation engineers of the Commission's staff. In addition, an interested party and counsel for the Commission's staff assisted in the development of the record through examination of the witnesses.

Most of the fares which applicants propose to increase apply between San Francisco and Los Angeles, San Diego and intermediate points. Between San Francisco and Los Angeles and intermediate points, Santa Fe Railway provides a coordinated rail-bus service utilizing streamlined trains between Oakland and Bakersfield via its route through the San Joaquin Valley and connecting bus service between San Francisco and Oakland and between Bakersfield and Los Angeles.² All-rail service is provided between Los Angeles and San Diego. Santa Fe Transportation and Greyhound also operate via the Valley route using highways that generally parallel the railway company's entire route from San Francisco to San Diego.³ In addition to its Valley route, Greyhound also operates between San Francisco and Los Angeles via the Coast route.

Santa Fe Railway proposes to increase its rail coach fares between points in the territories in question, including the fares applicable to the coordinated rail-bus service. Under the company's proposal, the one-way fares between San Francisco and Wasco, a point just north of Bakersfield, would be advanced to the level of 1.875 cents per mile.⁴ The adjustment would result in fare increases ranging from 1 cent to 45 cents. Between points in the territory

² The connecting bus service between Bakersfield and Los Angeles is provided for Santa Fe Railway by Santa Fe Transportation. The railway company uses its own busses between San Francisco and Oakland.

³ Between various points in the same territory the separate services of Santa Fe Railway and Santa Fe Transportation are fully integrated and coordinated with tickets interchangeable on the rail or bus operations.

⁴ The proposed round-trip fares would be based upon 180 percent of the increased one-way fares.

Bakersfield and south to and including San Diego, the proposed fares are based upon levels lower than 1.875 cents per mile assertedly to meet the competition of other modes of transportation. The increases resulting in these one-way fares would amount, for example to 25 cents at Bakersfield, 30 cents at Los Angeles and 75 cents at San Diego on movements from or to San Francisco.

The present bus fares of Santa Fe Transportation and Greyhound generally are lower than the fares of Santa Fe Railway in the territory where the proposed adjustments would be made. According to the record, the lower bus fares are necessary to enable the bus companies to obtain a fair share of the traffic in competition with Santa Fe Railway's streamlined train and coordinated train-bus services. It is pointed out that under these competitive conditions Santa Fe Transportation and Greyhound were unable to establish in the territory in question the full increase in their state-wide fares authorized by the Commission in 1951.⁵ The two bus companies now propose to bring their competitive fares into closer relation with the higher fare levels they maintain elsewhere in California.

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Decision No. 45785 of May 19, 1951 (50 Cal.P.U.C.649) authorized Santa Fe Transportation Company, Pacific Greyhound Lines and other designated major bus companies in California to increase their state-wide fares in accordance with the following basis:

One-Way Fares for Distances:		Rates in Cents per Mile Except as Shown
<u>Over</u>	<u>But Not Over</u>	
0	25	2.5
25	50	2.35
50	100	2.25
100	150	2.0
150	250	1.815
250	300	1.733
300	350	1.617
350	400	1.502
400	--	1.444
Round-trip Fares		180 percent of the increased one-way fares.

This would be accomplished by raising the fares in question to the aforesaid state-wide basis where it is possible to do so and by establishing such lesser increases at the other points involved as are necessary to meet the rail competition. As so adjusted, the competitive bus fares generally would be slightly lower than the rail fares proposed by Santa Fe Railway. Related upward adjustments also would be made in the bus fares from or to various off-rail points where the present bus fares are constructed by combinations over the competitive points. The foregoing proposals would result in increases in the one-way bus fares ranging from 15 cents to 45 cents. Santa Fe Transportation and Greyhound maintain, however, that the advances proposed in their bus fares cannot be established without substantial loss of traffic unless the fare increases sought herein by Santa Fe Railway are authorized.

Comparisons of the present and proposed fares between representative points involved in the applicants' proposals are shown in Appendix "A" hereof.

Applicants allege that they have experienced substantial increases in wages and other operating expenses and that the revenues derived from the present fares are insufficient to cover the costs of performing the services in question. The proposed fare adjustments are expected to provide additional revenue per year of \$164,797 for Santa Fe Railway, \$81,520 for Santa Fe Transportation and \$227,100 for Greyhound.

Santa Fe Railway's assistant auditor reported that in the year 1951 the revenues under the present fares for the passenger operations in the territory where the upward adjustments are proposed were insufficient by \$279,823 to cover the out-of-pocket costs of

performing the service. The operating ratio was 104.3 percent. Based upon the 1951 operations adjusted to increased current cost levels, the auditor and a transportation engineer of the Commission's staff submitted estimates of the future annual revenues and out-of-pocket expenses under the present and proposed fares. With adjustments as hereinafter indicated, the figures show that the revenues under the proposed as well as the present fares would fall substantially short of covering the out-of-pocket costs. In the estimates, the trains operating in the territory involved herein, including the bus connections, were considered in their entirety and the revenues earned in the year 1951 from the various classes of service performed were given effect in the revenue figures. These earnings included the revenues from the transportation of interstate and intrastate passengers and from the dining-car and head-end services.⁶

The out-of-pocket expenses generally were based upon the 1951 system costs as adjusted for upward changes that had occurred to and including July 1, 1952. The cost of wages of the engine crews and trainmen and the amount of fuel consumed were determinable from applicants' records and were used in the calculations. For determining most of the other out-of-pocket expenses, unit costs were developed from the system expenses or through special studies and applied to actual service units involved in the operations in question, such as gross ton-miles, locomotive miles, car-miles and train-miles. The

⁶ The charges for sleeping accommodations (but not the fares for transportation) operated by The Pullman Company and the expenses involved are taken into Pullman's accounts in accordance with a service contract approved by the Interstate Commerce Commission on August 22, 1949, re Proposed Pooling of Earnings and Service-Operation of The Pullman Company under Railroad Ownership (276 I.C.C. 5). Settlement with the railroads is made under a contract formula. Santa Fe Railway's auditor made provision in his figures for the amount of \$20,391 received from Pullman in 1951.

auditor included in his calculations the revenues and the out-of-pocket expenses involved in the dining-car service and the expenses for the operation of the bus services between San Francisco and Oakland and between Bakersfield and Los Angeles which are parts of the through rail-bus operations. The staff engineer did not treat the aforesaid expenses as out-of-pocket costs. The evidence of record establishes that they should be provided for in the engineer's out-of-pocket cost calculations. With these adjustments of the engineer's figures, the exhibits submitted by the witnesses show annual revenues and out-of-pocket expenses for the passenger operations in question as summarized in Table No. 1.

TABLE NO. 1

The Atchison, Topeka and Santa Fe Railway Company - Annual Revenues and Out-of-Pocket Expenses for the Passenger Operations in the Territory where the Company Proposes to Increase its Intrastate Passenger Fares

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Santa Fe Railway</u>	<u>Commission Engineer</u>	<u>Santa Fe Railway</u>	<u>Commission Engineer</u>
Revenue	*\$6,614,894	\$6,594,496	\$6,779,691	\$6,759,293
Out-of-Pocket Expenses	<u>7,098,819</u>	<u>7,775,604</u>	<u>7,098,819</u>	<u>7,775,604</u>
Out-of-Pocket Loss	\$ 483,925	\$1,181,108	\$ 319,128	\$1,016,311
Operating Ratio	107.3%	117.9%	104.7%	115.0%

* Adjusted to include the effect for the full year of an increase in an excursion fare made in October, 1951.

The full cost of the passenger operations in question also was developed by the auditor. On this basis, the record shows that the annual loss would amount to \$3,323,017 under the present fares and to \$3,158,220 under the proposed fares.⁷

The difference in the out-of-pocket losses shown in Table No. 1 resulted mainly from variations in the estimates of the operating expenses. Some of the difference is attributable to the fact that the auditor considered that 50 percent of the cost of maintenance of way and structures varied with the volume of traffic whereas the staff engineer used a factor of 75 percent and also to the fact that the auditor made no provision in his calculations for traffic expenses and general expenses. Other individual items of expense are not entirely comparable because of the different methods used by the witnesses in their calculations. However, it is clear that under either estimate shown in Table No. 1, operations under both the present and proposed fares would result in material out-of-pocket losses.

The record shows also that substantial operating losses are being experienced on Santa Fe Railway's system-wide passenger services. For the year 1950, the loss amounted to almost 10 million dollars and for 1951 it was more than 26 million dollars.

The railway company's chief rate clerk testified that the California intrastate coach fares have not been increased since the year 1948. He said that these fares are now and for many years have been maintained on levels lower than the basic rate observed elsewhere on the company's system. He pointed out that the present

⁷ The staff engineer submitted similar calculations. Because of the adjustments found necessary in his out-of-pocket cost figures, related charges in the engineer's full-cost estimates also should be made. However, the record does not contain sufficient detailed information for this purpose.

system basic coach rate is 2.5 cents per mile as compared with 1.875 cents per mile, and lower in some instances, sought in the intrastate fares involved herein. Exhibits were introduced showing that in the year 1951 the average revenue earned by the company amounted to 1.69 cents per mile for the California intrastate operations as compared with 1.86 cents per mile for the system intrastate services, 2.41 cents per mile for interstate movements from or to points in California and 2.38 cents per mile for the combined interstate and intrastate system operations.

We turn now to the evidence offered relative to the Santa Fe Transportation Company's earning position. Its assistant auditor submitted exhibits showing the financial results of this applicant's operations for the year 1951 under the present fares and what the results would have been had the proposed fares been in effect during that time. Estimates of the anticipated revenues and operating expenses under the present and proposed fares were offered by a transportation engineer of the Commission's staff covering the future 12-month period ending July 31, 1953. The estimates were based upon the 1951 operations. The figures shown in Table No. 2 were summarized from the exhibits submitted by the witnesses.

TABLE NO. 2

Santa Fe Transportation Company - Estimated
Annual Results of Operation Under Present
and Proposed Fares Based Upon 1951 Operations

	<u>Santa Fe Transportation Co.</u>		<u>Commission Engineer</u>	
	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenue	\$1,516,686	\$1,598,206	\$1,524,900	\$1,600,800
Operating Expenses	<u>1,588,828</u>	<u>*1,591,273</u>	<u>1,853,900</u>	<u>1,856,100</u>
Net Before Income Taxes	\$ <u>(72,142)</u>	\$ 6,933	\$ <u>(329,000)</u>	\$ <u>(255,300)</u>

* Adjusted to include gross revenue tax on the additional revenue from the proposed fares.

() - Indicates loss.

The variation in the financial results of operations shown in Table No. 2 resulted mainly from the use of different methods in calculating certain of the operating expenses involved in the joint operation in California of Santa Fe Transportation's service and that of an affiliated company.⁸ The auditor calculated the expenses assignable to his company in accordance with a written agreement between the two carriers.⁹ The staff engineer's figures were developed through apportionment of the expenses on the basis of related service units rather than in accordance with the agreement. The basis used by him resulted in assignment to Santa Fe Transportation of a proportion of certain joint expenses greater than the company actually would bear under the aforesaid agreement. Under the circumstances, the engineer's estimates of the operating results will not be used.

The auditor explained that his estimates, as shown in Table No. 2, were based upon the 1951 results of operation because the figures for 1952 included the effect of a temporary discontinuance of operations resulting from an employee strike from March 14 to May 15, 1952, inclusive. He submitted an estimate, however, of the probable operating results for 1952 assuming that the proposed fares were in effect throughout the year. In the calculations, the annual

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Santa Fe Transportation Company's passenger operations in California involve only intrastate movements. The interstate traffic is handled by its affiliate, Transcontinental Bus System, Inc. The busses and other facilities used in the service are jointly operated by the two companies.

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Under the agreement, the intrastate revenue accrues to Santa Fe Transportation and the interstate revenue to the affiliate. Operating expenses that are solely related to each company's traffic are charged accordingly. Joint expenses are charged on the basis of the ratio of each company's California revenue to the total revenue earned by them in the State. See Decision No. 41629 of May 25, 1948, in Application No. 29280 (unreported).

revenue was based upon the actual amount earned in the first 5 months of 1952 with the remainder of the year being estimated "on the ratio January and February 1952 bear to the same two months of 1951." The revenues for the first 5 months of 1952 reflect the adverse effect of the employee strike hereinabove mentioned. It appears to be lower than the amount reasonably to be anticipated for annual operations not involving a discontinuance of service due to a strike. Under the circumstances, the estimated operating results based upon the 1952 operations will not be used. These calculations disclose, however, that since the end of 1951 the company has experienced increases in wages and other operating expenses amounting to \$90,638 per year. No adjustment to give effect to these additional costs was made in the auditor's figures based on the 1951 operations as shown in Table No. 2. With this adjustment, his estimate of the annual operating results under the proposed fares would show a loss of \$83,705. The operating ratio would be 105.2 percent.

The evidence relative to the financial results of the operations of Pacific Greyhound Lines will now be considered. The record shows that this company also experienced a temporary discontinuance of its state-wide operations as a result of a strike of its employees during the period March 1 to May 19, 1952, inclusive. Greyhound's vice-president introduced a study designed to show what the company's annual earning position would be on its California intrastate operations if the increased fares sought herein were authorized. As the basis for the calculations, he used the annual operating results for the year 1951 as estimated by the Commission in Decision No. 45785 of May 29, 1951 (50 Cal.P.U.C. 649,682) in connection with the last upward adjustment of Greyhound's state-wide fares. The witness adjusted these operating results generally to

reflect a number of current conditions. The annual revenue figure was increased to include the additional revenue derived from advances subsequently authorized in the company's express rates and from the higher fares proposed herein.¹⁰ The latter figure was developed from the traffic volume handled in the 12-month period ended February 29, 1952. Upward adjustments were made also in certain of the operating expenses to reflect increased costs, including \$854,000 per year to cover wage increases granted to the employees under a labor agreement negotiated during the strike hereinabove mentioned. The estimated annual operating results shown in Table No. 3 for Greyhound's over-all intrastate operations under the proposed fares were taken from the exhibits introduced by the vice-president.

TABLE NO. 3

Pacific Greyhound Lines - Estimated Annual
Operating Results for the Over-All Intrastate
Operations Under the Fares Proposed Herein

Revenue	\$20,289,300
Operating Expenses	<u>19,872,100</u>
Net Before Income Taxes	\$ 417,200
Income Taxes	<u>225,000</u>
Net After Income Taxes	192,200
Operating Ratio After Taxes	99.1%

A rate base was not submitted by the witness. Assertedly, the basic figures were not available for the separation of the

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The increase in Greyhound's express rates was authorized by Decision No. 46573 of December 18, 1951, in Application No. 32658.

depreciated investment in busses and other facilities used for both interstate and intrastate operations. The witness stated also that he considered the instant application a continuation of the last fare increase proceeding, supra, in connection with which Greyhound was unable, because of competitive conditions, to establish in the territory involved herein the full increase authorized by the Commission. Counsel for Greyhound stated that he was agreeable to the use of the rate base submitted by a Commission engineer in the aforesaid previous proceeding. The instant record shows, however, that adjustments in that rate base are necessary to bring it into conformity with current conditions. The data needed for the adjustments are not of record. The rate base in question will not be used for the purpose of these proceedings.

A transportation engineer of the Commission's staff introduced estimates of the annual increase in revenue that would be derived by Greyhound from the proposed fares and of the annual cost of the wage increase granted to the bus drivers. The engineer's figures were in substantial agreement with the amounts used in Greyhound's calculations. The slight differences involved resulted from the use of different bases for the estimates.

The witness for Greyhound also introduced an exhibit showing the financial results of the company's system operations for the first five months of 1952 under present fares. ¹¹ According to the exhibit, an operating loss of \$345,895 was sustained in the period in question. The operating ratio was 104.4 percent. It should be noted, however, that during the period covered by the operating results the system operations were discontinued

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The system operations are conducted within and between seven western states, including California.

from March 2 to May 19, 1952, because of a strike of the employees.

Notices of the public hearing in these proceedings were posted in applicants' depots and vehicles and were published in newspapers of general circulation in the areas involved. In addition, the Commission's secretary sent notices of the hearing to persons and organizations believed to be interested. No one specifically opposed the granting of the applications.

Conclusions

The record shows that Santa Fe Railway and Santa Fe Transportation are experiencing substantial operating losses under the present fares for their passenger services in the territory involved herein. The record shows also that the present fares were depressed to meet competition and that they are on levels lower than the basic rates observed elsewhere in California and in western territory generally. It is clear that additional revenues are needed by the two applicants in question. The proposed fares between a substantial number of points where competitive conditions prevail would continue to be maintained on levels lower than the basic rate. According to the record, the revenues that would be derived from the proposed fares would do no more than assist in reducing the operating deficit now being experienced and the losses on the operations under the proposed fares still would be substantial. In the circumstances, the evidence is convincing that the present fares of Santa Fe Railway and Santa Fe Transportation involved herein are insufficient and that the proposed fares are needed to enable the applicants to maintain adequate service to the public.

Greyhound did not submit the financial results of its California intrastate operations under the present fares for any

past period. As previously stated, however, exhibits were introduced by the company purporting to show what the estimated annual operating results would be under the fares proposed herein based upon the forecast for the year 1951 made by the Commission in Decision No. 45785 of May 29, 1951 (50 Cal. P.U.C. 649,682), when it authorized the last increase in Greyhound's state-wide fares. Although the company adjusted the forecast to include advances in express rates since authorized and also increases in wages and in a few other expenses, no attempt was made to bring the traffic level used in the forecast into conformity with actual conditions prevailing since the decision in question was issued.

In some circumstances, these deficiencies in a showing in support of proposed fare increases for a substantial and important segment of an applicant's intrastate operations would require that the application be denied. This record shows, however, that Greyhound has been subjected to increases in the wages of bus drivers, station employees and maintenance crews amounting to \$854,000 per year under a wage agreement entered into on May 10, 1952, during a strike of the employees. On the other hand, the additional revenue that would be produced by the increased fares sought herein amounts to \$227,100 per year, or only 26.6 percent of the wage adjustment. Moreover, the fare increases proposed by Greyhound affect a substantial number of its bus fares which were not advanced to the full extent heretofore authorized in Decision No. 45785, supra, because of railroad competition. The proposal herein would result in bringing these fares into closer relation with Greyhound's other fares in California and, to this extent, the burden of the company's state-wide revenue needs would be lessened on the other traffic. The

evidence shows also that, because of keen competitive conditions, the higher fares sought by the individual applicants cannot be established unless the proposals of all three applicants are authorized. Consideration of the foregoing circumstances leads to the conclusion that the additional revenue sought is needed partly to offset the added cost of higher wages and that the evidence is sufficient to warrant authorizing the fare increases proposed by Greyhound.

Pacific Greyhound Lines is advised, however, that in any proceeding involving increases in its intrastate fares, rates or charges that may arise in the future, it will be expected to make a complete showing in support of its proposals, including intrastate rate base and intrastate financial results of operation for representative past, present and future periods under the then current and the proposed fares, rates or charges.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that the fare increases sought by the three applicants in these proceedings are justified. The applications, as amended, will be granted.

O R D E R

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

IT IS HEREBY ORDERED that The Atchison, Topeka and Santa Fe Railway 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 passenger fares as proposed in Application No. 32771, as amended, in these proceedings.

IT IS HEREBY FURTHER ORDERED that Santa Fe Transportation Company be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, increased passenger fares in accordance with the mileage scale sought herein except that increased fares on levels lower than the said scale shall be established in accordance with Exhibit "E" and Exhibit No. 23, in these proceedings, between competitive points shown therein served by Santa Fe Transportation Company, as proposed in Application No. 32771, as amended, in these proceedings. Round-trip fares shall be constructed on the basis of 180 percent of the authorized increased one-way fares. Increased fares ending in other than naught or five may be increased to the next naught or five.

IT IS HEREBY FURTHER ORDERED that Pacific Greyhound Lines be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, increased passenger fares in accordance with the mileage scale sought herein except that increased fares on levels lower than the said scale shall be established in accordance with Exhibit No. 23, in these proceedings, between competitive points served by Pacific Greyhound Lines, as proposed in Application No. 32783, in these proceedings. Round-trip fares shall be constructed on the basis of 180 percent of the authorized increased one-way fares. The increased fares ending in other than naught or five may be increased to the next naught or five.

IT IS HEREBY FURTHER ORDERED that, in addition to the required filing and posting of tariffs, applicants shall give notice to the public by posting in their passenger vehicles and passenger terminals a printed notice of the increased fares herein authorized.

Such notice shall be given not less than five (5) days prior to the effective date of the increased fares and shall remain posted until not less than twenty (20) days after the said effective date.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after the effective date of this order.

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

Dated at San Francisco, California, this 18th day of November, 1952.

R. J. [Signature]
President
Harold P. Hills
Armenia Patten
J. E. [Signature]
Commissioners

APPENDIX "A"

Comparison of Present and Proposed One-way Fares of The Atchison, Topeka and Santa Fe Railway Company, Santa Fe Transportation Company and Pacific Greyhound Lines Between Representative Points in the Territory Where Increased Fares Are Sought. (Federal Transportation Tax Is in Addition to the Fares Shown Below.)

<u>Between</u>	<u>And</u>	<u>Santa Fe Railway</u>		<u>Santa Fe Transportation And Greyhound</u>	
		<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
San Francisco	Stockton	\$1.58	\$1.62	\$1.50	\$1.50
	Merced	2.44	2.84	2.25	2.65
	Madera	3.08	3.53	2.85	3.00
	Fresno	3.49	3.93	3.20	3.40
	Bakersfield	5.40	5.65	5.00	5.00
	Los Angeles	6.20	6.50	5.65	5.95
	Long Beach	6.48	6.78	5.95	6.25
	Oceanside	7.61	8.09	6.85	7.20
	San Diego	8.12	8.37	7.35	7.75
Los Angeles	Stockton	5.51	5.81	5.05	5.35
	Merced	4.53	4.78	4.45	4.70
	Madera	4.01	4.31	3.90	4.20
	Fresno	3.51	3.91	3.55	3.90
	Bakersfield	1.95	2.30	1.95	2.30
	San Diego	2.25	2.37	2.10	2.35
Bakersfield	Stockton	4.20	4.38	3.85	4.00
	Merced	2.95	3.04	2.60	2.70
	Madera	2.33	2.47	2.25	2.40
	Fresno	1.91	2.07	1.90	2.05
Fresno	Stockton	2.27	2.31	2.10	2.10
	Merced	1.05	1.09	1.10	1.10
	Madera	.41	.40	.45	.45
	Bakersfield	1.91	2.07	1.90	2.05
San Diego	Madera	5.91	6.68	5.10	5.40
	Fresno	5.51	6.28	5.05	5.35
	Bakersfield	3.95	4.67	3.85	4.25
	Los Angeles	2.25	2.37	2.10	2.35
Stockton	Madera	1.86	1.91	1.80	1.80
	Fresno	2.27	2.31	2.10	2.10
	Bakersfield	4.20	4.38	3.85	4.00
	Los Angeles	5.51	5.81	5.05	5.35
	Oceanside	6.53	7.40	5.95	6.25
	San Diego	7.10	8.18	6.40	6.75
Oakland	Stockton	1.45	1.49	1.35	1.35
	Merced	2.35	2.71	2.10	2.45
	Fresno	3.40	3.80	3.15	3.30
	Bakersfield	5.34	5.65	4.90	4.90
	Los Angeles	6.08	6.38	5.55	5.85
	San Diego	7.90	8.75	7.15	7.55

Proposed round-trip fares to be based upon 180 percent of the proposed one-way fares.

End of Appendix