

Decision No. 49959**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN PACIFIC COMPANY, NORTHWESTERN)
 PACIFIC RAILROAD COMPANY and SAN DIEGO &)
 ARIZONA EASTERN RAILWAY COMPANY for) Application No. 34354
 authority to increase basic passenger)
 fares and excess baggage charges intra-)
 state in California.)

APPEARANCES

E. J. Foulds and Randolph Karr, for applicants.
Glenn M. Fountain, for Merced County Board
 of Supervisors, protestant.
Walter I. Phillips, in propria persona, inter-
 ested party.
Harold J. McCarthy, for the Commission's staff.

O P I N I O N

Applicants are common carriers of passengers by railroad. By this application, they seek authority to increase their intrastate first-class and coach-class fares for the transportation of passengers and the charges for handling excess baggage on less-than-statutory notice.^{1/} The sought upward adjustment corresponds with that authorized in the interstate passenger fares and baggage charges of applicants and other railroads by the Interstate Commerce Commission's order of April 6, 1953 in Docket No. 31050, Southern Pacific-Missouri Pacific Increased Fares.^{2/}

A public hearing of the application was held at San Francisco on January 28, 1954, before Commissioner Potter and Examiner Jacopi.

^{1/} The application shows that the first-class fares include only transportation in sleeping cars and parlor cars. Additional charges assessed for the occupancy of sleeping accommodations and parlor car seats are named in tariffs of The Pullman Company and are not involved in this proceeding.

^{2/} The increased interstate fares and charges became effective in applicants' tariffs on May 10, 1953.

The matter was submitted upon receipt of late-filed exhibits on February 9, 1954. Evidence was introduced by traffic, accounting and research officials of Southern Pacific Company and by a transportation engineer of the Commission's staff.^{3/}

Comparisons of the present and proposed fares between representative points are set forth in Appendix "A" hereof. The sought fare adjustments were explained by a traffic official of Southern Pacific. According to his testimony, a 10-per cent increase is sought in applicants' basic one-way first-class and coach-class fares, which generally are constructed by use of mileage rates of 3.5 cents per mile and 2.5 cents per mile, respectively.^{4/} A like upward adjustment would be made in mixed-class fares, in through fares constructed by combinations of local fares and in interline fares. The sought increase in coach fares would not be applied, however, to Southern Pacific's so-called special coach fares between the terminal points of San Francisco, Oakland and Sacramento and Los Angeles and from or to most of the intermediate points on the San Joaquin Valley route nor to the coach and commutation fares for the company's local Peninsula operations.^{5/}

Exhibits designed to show that substantial losses have been and still are being experienced on passenger train services were introduced and explained by the assistant general auditor. In these calculations, adjustments were made to include retroactive payments received from the government to cover increases in the rates for handling mail traffic. The exhibits showed that for the years 1947 to 1952,

^{3/} The Southern Pacific officials in question were the assistant to the vice-president (passenger traffic), the assistant general auditor and the manager of the company's bureau of transportation research. The record shows that Northwestern Pacific Railroad Company and San Diego & Arizona Eastern Railway Company, the other applicants herein, are subsidiaries of Southern Pacific Company.

^{4/} The respective increased round-trip fares would be on the basis of 166-2/3 per cent of the new first-class one-way fares and 180 per cent of the new coach-class one-way fares.

^{5/} The Peninsula operations are conducted between San Francisco and San Jose, Los Gatos and intermediate points. Although no increase is sought in the coach fares as indicated above, it is proposed to designate them as special coach fares and to reduce the use period of the tickets and the baggage allowance to conform with those applicable to the other special coach fares referred to above.

inclusive, Southern Pacific experienced losses each year on its system passenger train operations ranging from about 16.5 million dollars to slightly more than 37 million dollars. On the passenger train operations from, to and within California consisting of both interstate and intrastate movements, the annual losses for the aforesaid years ranged from about 1.5 million dollars to about 10.5 million dollars. The California figures did not include provision for taxes nor for railway equipment and joint facility rents assertedly because of the difficulty involved in separating the portions assignable to the different services. However, the combined freight and passenger system operations, Southern Pacific earned net income equal to rates of return ranging from 2.85 per cent in 1947 to 4.4 per cent in 1952 on the net book value of the properties devoted to the operations. According to the auditor's exhibits, the Northwestern Pacific conducted its passenger train operations in the aforesaid years at annual losses ranging from about \$50,000 to approximately \$709,000.

The revenues and the out-of-pocket expenses for Southern Pacific's system passenger operations and for the group of its trains operating entirely within California were set forth in exhibits introduced by the manager of the company's bureau of transportation research. Based upon operations in the 12 months ended September 30, 1953, the exhibits disclosed that the revenues failed to cover the out-of-pocket expenses by substantial amounts. The figures were submitted for the individual passenger trains in question, exclusive of those operating in the local Peninsula service which are not involved herein. In these calculations, each train was considered in its entirety and all revenues from the transportation of both interstate and intrastate passengers and from dining cars and head-end services were given effect. The revenues were adjusted to current fare and rate levels including provision for the value of free transportation accorded under the provisions of the Public Utilities Code and the expenses were calculated on the levels prevailing on June 30, 1953. As summarized from the

exhibits of record, the annual revenues and out-of-pocket expenses under the present fares for Southern Pacific's system and for its California passenger train operations are set forth in the tabulation which follows:

Annual Revenues and Out-of-Pocket Expenses
Under Present Fares For Southern Pacific's
Passenger Train Services As Indicated Below:

	System Passenger Train Operations	(1) Trains Operating Entirely In California
Revenues	\$ 61,231,305	\$16,497,635
Out-of-Pocket Expenses	68,610,510	20,537,820
Out-of-Pocket Loss	<u>(\$ 7,379,205)</u>	<u>(\$ 4,040,185)</u>

 - Indicates red figure

(1) Includes the following trains: San Joaquin Daylight, Sacramento Daylight, Owl, West Coast, Oakland Lark, Lark, Del Monte, Starlight, Coast Daylight, Senator, Governor, Sierra, El Dorado and Trains Nos. 71, 72, 201, 202, 250, 255, 347 and 348.

Similar calculations covering the Northwestern Pacific's passenger train service showed that the annual over-all revenues under the present fares from the two trains operated are insufficient to cover the out-of-pocket costs by \$333,960.

It was estimated that the sought increases in passenger fares would provide about \$300,000 per year additional intrastate revenue for Southern Pacific and about \$5,000 per year for Northwestern Pacific. The witnesses for applicants pointed out that the increases in revenue amounted to considerably less than the annual out-of-pocket losses that were being experienced. No estimate of the additional revenue anticipated for San Diego & Arizona Eastern Railway Company was offered. It was explained, however, that the company no longer operated regular passenger train service and that its passenger fares were used only for occasional special train operations.

A transportation engineer of the Commission's staff also introduced studies of the annual revenues and out-of-pocket expenses for the passenger trains of Southern Pacific and Northwestern Pacific.

The studies were based upon operations in the 12-month period ended September 30, 1953, with adjustments of revenues to current fare and rate levels and for the cash value of transportation performed under passes. The expenses were calculated on current costs. For Southern Pacific's operations, the staff engineer calculated the operating results for two groups of passenger trains. One of the groups included all trains operating from, to or within California. In the calculations for this group, each train was considered in its entirety and all revenues were given effect. The other group of trains dealt with included only those operating entirely within California which would be affected by the sought increases and the revenues and out-of-pocket expenses therefor were developed and shown only for California intrastate transportation of all classes performed by such trains. The operating results shown below under the present and proposed fares were taken from the staff engineer's exhibits.

Annual Revenues And Out-of-Pocket Expenses
Under Present And Proposed Fares For Southern
Pacific's Passenger Train Service as Developed
By The Staff Engineer.

	Passenger Trains Operating From, To or Within California		Operating Results For California Intrastate Passenger Train Serv- ices Affected Herein	
	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenues	\$60,341,675	\$60,681,795	\$5,943,437	\$6,283,057
Out-of-Pocket Expenses	<u>65,239,482</u>	<u>65,239,482</u>	<u>8,184,602</u>	<u>8,184,602</u>
Out-of-Pocket Loss	<u>(\$ 4,897,807)</u>	<u>(\$ 4,558,187)</u>	<u>(\$2,241,165)</u>	<u>(\$1,901,545)</u>

() - Indicates red figure

The staff engineer calculated also the full costs of the passenger train operations in question. On this basis, his studies showed that the annual losses would amount to \$28,842,013 under present fares and \$28,502,393 under proposed fares for the group of trains operating from, to or within California. For the California intrastate services, the annual losses would amount to \$5,244,867 and \$4,905,247 under the present and proposed fares, respectively.

According to the testimony of the rail traffic official, supra, no material loss of traffic was expected to result from the establishment of the increased fares sought. Assertedly, past experience under similar circumstances showed that moderate fare increases had not caused any noticeable diversion of rail traffic to other means of transportation. No advance was being sought at this time in Southern Pacific's special coach fares, the witness said, because they had been adjusted by Decision No. 47244 of June 9, 1952 (51 Cal. P.U.C. 752) whereas no change was made then in the other fares involved herein pending disposition of the interstate proceeding, supra. In support of the proposed change in the periods of time for honoring the Peninsula special coach tickets, the witness asserted that most of the tickets were used for continuous trips for which five days and 18 days would be ample for one-way trips and round trips, respectively, and that the uniformity that would be achieved with the limitations on the other intrastate special coach fares was desirable.

Notices of the hearing in this proceeding were posted in applicants' depots and in the passenger trains serving the points involved herein. In addition, the Commission's secretary sent notices of the hearing to persons and organizations believed to be interested. The sought fare increases were opposed by the Merced County Board of Supervisors but its representative introduced no direct evidence. No one else appeared in opposition to the granting of the application. Counsel for the Commission's staff participated in the examination of the witnesses and otherwise assisted in the development of the record.

The operating results of the passenger train services submitted by the witnesses for applicants and by the staff engineer are not entirely comparable by reason of differences in the methods employed in the calculations and in the segregations of the operations in producing the final results. They provide reasonable bases, however, and will be used for the considerations involved in determining applicants' passenger revenue needs in this proceeding. It is

clear under either method that the present annual revenues derived from the passenger train operations are insufficient to cover the out-of-pocket or bare costs of providing the services by substantial amounts and that the additional revenue from the proposed fares would do no more than assist in reducing the deficits being experienced on such operations. In the circumstances, the record is convincing that the present passenger fares involved in this proceeding are inadequate as alleged and that the proposed fares and charges are reasonable and necessary. The proposals to establish uniformity in the limitations on the honoring of the one-way and round-trip tickets for the Peninsula service and to adjust the fares of San Diego & Arizona Eastern Railway Company for the occasional special trains operated to the levels of those of the other applicants likewise appear to be reasonable and will be authorized.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that the increases in applicants' intrastate fares and excess baggage charges and the changes in tariff rules proposed in this proceeding are justified. The application 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 Southern Pacific Company, Northwestern Pacific Railroad Company and San Diego & Arizona Eastern Railway Company be and they are hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the increased passenger fares, excess baggage charges and changes in tariff rules as proposed in the application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that applicants be and they are hereby authorized to publish the increased fares, rates and charges herein authorized in the same form as that authorized by the Interstate Commerce Commission. To the extent departure from the terms and rules of Tariff Circular No. 2 of this Commission is required to accomplish such publication, authority for such departure be and it is hereby granted.

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

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

Dated at San Francisco, California, this 20th day of April, 1954.

A. E. [Signature]
 President

James F. [Signature]

Samuel [Signature]

W. E. [Signature]

W. [Signature]
 Commissioners

APPENDIX "A"

Comparisons of Present and Proposed First-Class and
Coach-Class One-Way and Round-Trip Fares Between
Representative Points Involved in Application No. 34354

<u>Between</u>	<u>And</u>	<u>FIRST-CLASS FARES</u>				
		<u>One-Way</u>		<u>Round-Trip</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	
San Francisco	Los Angeles	\$16.57	\$18.23	\$27.65	\$30.40	
	Bakersfield	10.62	11.68	17.70	19.50	
	Fresno	6.83	7.51	11.40	12.55	
	Sacramento	3.15	3.47	5.25	5.80	
	Redding	8.23	9.05	13.75	15.10	
	Paso Robles	7.47	8.22	12.45	13.70	
	Santa Barbara	12.90	14.19	21.50	23.65	
	Ukiah	3.93	4.32	6.60	7.20	
	Scotia	8.88	9.77	14.85	16.30	
	Fortuna	9.25	10.18	15.45	17.00	
	Eureka	9.88	10.87	16.50	18.15	
	Los Angeles	Sacramento	15.81	17.39	26.35	29.00
		Merced	11.73	12.90	19.55	21.50
Fresno		9.80	10.78	16.35	18.00	
Bakersfield		6.01	6.61	10.05	11.05	
Salinas		12.55	13.81	20.95	23.05	
<u>COACH-CLASS FARES</u>						
San Francisco	Sacramento	2.25	2.48	4.05	4.50	
	Redding	5.89	6.48	10.65	11.70	
	Red Bluff	5.01	5.51	9.05	9.95	
	Truckee	5.25	5.78	9.45	10.45	
	Dunsmuir	7.30	8.03	13.15	14.50	
	Ukiah	2.91	3.20	5.10	5.80	
	Scotia	6.50	7.15	11.45	12.90	
	Eureka	7.21	7.93	12.75	14.30	
	Los Angeles	Colton	1.47	1.62	2.65	2.95
		Palm Springs	2.57	2.83	4.65	5.10
El Contro		5.50	6.05	9.90	10.90	
Santa Barbara		2.62	2.88	4.75	5.20	
San Luis Obispo		5.62	6.18	10.15	11.15	

END OF APPENDIX "A"