

Decision No. 50730**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN PACIFIC COMPANY to cancel ) Application No. 33475  
 commutation fares between Santa Cruz ) (1st Supplemental)  
 and Davenport. )

E. J. Foulds and John Smith, for applicant.  
R. A. Kinzie, Jr., for Santa Cruz Portland  
 Cement Co.; Joseph M. Vierra, for United  
 Cement, Lime and Gypsum Workers  
 International Union, District Council;  
 and W. E. Root, for United Cement, Lime  
 and Gypsum Workers International Union,  
 Local No. 46; protestants.  
Charles R. Sexton, for the Commission staff.

O P I N I O N

In original Application No. 33475 Southern Pacific Company, a common carrier of passengers by railroad, sought authority to cancel its monthly commutation fare of \$7.50, applicable between Santa Cruz and Davenport. Service between these points is performed for applicant by Pacific Greyhound Lines, a passenger stage corporation, under a long-standing contractual arrangement.

By Decision No. 48191, dated January 19, 1953, the application was denied. The Commission pointed out therein that while the service in question was being operated at a loss, the record disclosed that operating economies could be effected which would reduce the loss by more than half. The Commission stated applicant would be expected to undertake a thorough study of the existing bus operations between Santa Cruz and Davenport for the purpose of effecting all operating economies which were practical without impairment of services essential to the public, including such revisions of running and departure times as would more appropriately

satisfy the travel needs of the patrons. The Commission said if at the conclusion of a period of not less than 120 days after the changed service is commenced, applicant deemed a fare adjustment necessary, the matter might be presented by the filing of a supplemental application.

On April 12, 1954, applicant filed First Supplemental Application No. 33475. It alleges therein that although it has placed in effect all possible operating economies which were practical, the service between Santa Cruz and Davenport is still operating at a substantial out-of-pocket loss. In view of this situation applicant declares that a fare adjustment is necessary. It again proposes to cancel the commutation fare of \$7.50, and to substitute therefor a multiple ride fare of 22 rides for \$6, good for 30 days from date of sale.<sup>1</sup> Predicated on the normal five-day work week, the monthly cost to the user would be \$12, reflecting an increase over the present basis of 60 per cent.

A public hearing of the first supplemental application was held at Santa Cruz on July 16, 1954, before Examiner Carter R. Bishop. Representatives of the Santa Cruz Portland Cement Company and the union to which its employees belong appeared in opposition to the increase.

Evidence in support of the request was introduced by applicant's assistant general auditor and by a representative of its passenger traffic department. The latter testified that, pursuant to the Commission's findings in Decision No. 48191, one poorly patronized schedule in each direction between Santa Cruz and

---

<sup>1</sup> No change is proposed in the existing one-way and round-trip fares of 31 cents and 60 cents, respectively. These fares are now on the basic levels generally observed by applicant for such fares.

Davenport had been eliminated, effective February 11, 1953. At the same time, he said, the running times on the remaining schedules were shortened and the arrival and departure times were changed to fit more closely the needs of the employees of the Santa Cruz Portland Cement Company at Davenport.<sup>2</sup>

The witness introduced an exhibit showing, by months, the number of commutation tickets sold during the 12-month period ending April 30, 1954. The average number of such tickets sold per month during that period was 63. This compares with monthly average of 60 tickets sold during the three-month period August to October, inclusive, 1952. Another exhibit showed the number of passengers carried between Santa Cruz and Davenport on each schedule each day during the months of March and April, 1954. In Table I, below, these figures are summarized and compared with the results of a similar tabulation for the months of August and September, 1952, which was placed in evidence at the hearing of the original application.

TABLE I

Number of Passengers on Each Schedule Operated<sup>3</sup>

	<u>March and April, 1954</u>						
	<u>#673</u>	<u>#672</u>	<u>#667-669</u>	<u>#674</u>	<u>#671</u>	<u>#670</u>	
Total	395	383	1824	1774	814	720	
Average per Day	6	6	30	29	13	12	
	<u>August and September, 1952</u>						
	<u>#673</u>	<u>#672</u>	<u>#667</u>	<u>#669</u>	<u>#674</u>	<u>#671</u>	<u>#670</u>
Total	537	512	1001	421	1376	791	691
Average per Day	9	8	20	7	23	13	11

<sup>2</sup>

The record shows that the cement plant workers are the principal purchasers of the commutation tickets. Assertedly, the above-mentioned changes in schedules were made after consultation with representatives of the workers.

<sup>3</sup>

The figures shown in the table include all passengers transported, including both those riding on one-way and round-trip tickets, and persons using the commutation fare here in issue.

Revenue and expense figures attributable to the Santa Cruz-Davenport passenger service for the 12-month period ending April 30, 1954, also were introduced. According to this exhibit revenues received during this period amounted to \$7,981. This figure included revenues from the sale of applicant's monthly commutation tickets, from Greyhound local tickets, and from the transportation of mail, express and newspapers.<sup>4</sup> During the same period the total payments to Greyhound under the afore-mentioned contract totaled \$14,510, leaving applicant with an out-of-pocket loss of \$6,530.<sup>5</sup> The operating ratio was 181.8 per cent. The exhibit showed that the revenue from the monthly commutation fare amounted to 70.7 per cent of the total revenue derived from the operation.

Estimated results of operation of the passenger service in question for the 12-month period ending July 31, 1955, under present and proposed fares, were offered by witnesses for applicant

---

<sup>4</sup> According to the record all one-way and round-trip fares between Santa Cruz and Davenport are sold for account of Greyhound. The one-way and round-trip fares via that carrier are 30 cents and 55 cents, respectively. Effective May 10, 1954 applicant's corresponding fares were increased to 31 cents and 60 cents, respectively.

<sup>5</sup> As explained in Decision No. 48191, supra, the contract under which Greyhound provides the Santa Cruz-Davenport service specifies that all revenues, including those of Greyhound, derived from the service shall be credited to applicant. The latter reimburses Greyhound in the amount of its actual operating expenses plus a "management" fee of ten per cent. The operating expenses are calculated in accordance with a formula to which the parties to the arrangement have agreed.

and by a transportation engineer of the Commission's staff. The estimates are summarized in the following table:

TABLE II

Estimated Results for Rate Year  
Ending July 31, 1955

Item	<u>Under Present Fares</u>		<u>Under Proposed Fares</u>	
	<u>Applicant</u>	<u>Staff Engineer</u>	<u>Applicant</u>	<u>Staff Engineer</u>
<u>Revenues</u>				
Southern Pacific Commute	\$ 5,845	\$ 5,975	\$ 9,352	\$ 4,128
Pacific Greyhound Tickets	1,294	960	1,294	5,180
Mail	908	(	908	(
Express	1	( 970	1	( 970
Newspapers	33	(	33	(
Total Revenues	\$ 8,081	\$ 7,905	\$11,588	\$10,278
Operating Expenses	14,850	13,949	14,850	14,371
Net Operating Revenue	\$ (6,769)	\$ (6,044)	\$ (3,262)	\$ (4,093)
Operating Ratio %	183.8	176.4	128.2	139.8

( ) - Indicates loss

With respect to the estimates of operating results under present fares the studies both of applicant and of the Commission's staff show substantial losses for the projected rate period. Even under the proposed fares both witnesses estimated that applicant would continue to sustain out-of-pocket losses in providing the passenger service between Santa Cruz and Davenport. The estimated deficits for the rate year were \$3,262 and \$4,093 according to applicant and the staff, respectively. The corresponding operating ratios would be 128.2 and 139.8 per cent.

Under the proposed basis of fares the two estimates of applicant's operating expenses for the test year do not appreciably differ. They reflect estimates of operating expenses to be incurred by Greyhound in performing the service in question, and, as to applicant's estimate, include the ten per cent "management" fee of

\$1,350 hereinbefore mentioned. The staff estimate did not provide such an allowance. Applicant offered no evidence of probative value to establish the propriety of giving effect to a fee of this character for rate-making purposes.

Revenues under the proposed fares would amount to \$11,588, according to applicant's estimate, and \$10,278, as estimated by the Commission's staff. The difference in these figures is attributable to the different methods employed in their development. Applicant estimated that revenues under the new commutation fare would be 60 per cent greater than under the present commutation fare, that figure being the calculated percentage of increase in fares; for the five-day weekly commuter, under the proposal herein:<sup>6</sup> Applicant did not make any allowance for diminution of traffic by reason of the fare increase, nor for any diversion of patronage from commutation fares to round-trip fares.

The staff engineer's estimate of revenues under the proposed fare structure was predicated first on the judgment that there would be a diminution in traffic because of the fare increase,<sup>7</sup> and then that over half of the remaining commutation users would turn to the purchase of round-trip Greyhound tickets in lieu of the new 22-ride commutation fare.<sup>8</sup> He pointed out that on the basis of

---

<sup>6</sup> The figure of 60 per cent is predicated on the assumption that the user will make an average of 22 round trips per month between Santa Cruz and Davenport.

<sup>7</sup> The diminution factor employed was eight per cent. It is based on a staff formula reflecting experience in various California cities in which fares have been increased.

<sup>8</sup> Specifically, the staff estimate was that, after allowance for the diminution factor, 55 per cent of the remaining commutation fare users would change to the Greyhound one-way and round-trip fares. It was further estimated that 90 per cent of all riders purchasing tickets of this latter type would pay the round-trip fare of 55 cents.

22 round trips the monthly cost of round-trip tickets would be \$12.10, as compared with an outlay of \$12 for the proposed commutation tickets.

The record indicates that if the fare increase sought herein is authorized, some of the present traffic will be lost to other means of transportation. For this reason, it appears that applicant's estimate of revenues under the proposed fares is unduly optimistic. The staff estimate of operating results under the proposed increase appears to conform more closely to the probabilities. It will be adopted for the purposes of this proceeding.

Applicant's assistant general auditor introduced exhibits showing financial results of the carrier's passenger operations. The record indicates that losses of \$37,052,000 in 1952 and \$45,919,000 in 1953 were experienced on the system operations, including those in California. With respect to the passenger operations in California, both intrastate and interstate, the losses for those same years were \$10,727,000 and \$15,200,000, respectively.

Testimony in opposition to the granting of the application was given by the plant superintendent of the Santa Cruz Portland Cement Company and by a representative of the plant employees' union, on behalf of its members. It was stated that several car pools of the cement plant employees were then in operation between Santa Cruz and Davenport, one of which had been in existence for at least five years; that the average cost per rider of five dollars per month would, in a six-car pool, pay for the purchase of an old car and take care of its operating expenses, including insurance; and that if the requested fare increase were authorized, more car pools would be formed. The resulting loss of revenue to applicant, it was said, would offset the fare increase. Opposition was also expressed to a fare structure which would produce a lower passenger

operating ratio on the Santa Cruz-Davenport line than on applicant's system as a whole.<sup>9</sup>

The record discloses that applicant, after the denial of its original application, made adjustments in the service in question, including the revision of running and departure times of the busses better to meet the travel needs of the patrons. Moreover, the record indicates that applicant has effected such operating economies as were practical without impairment of services essential to the public. During the period that these changes have been in operation expenses have been reduced, but revenues have not appreciably improved. Thus, while the out-of-pocket loss sustained by applicant during the 12-month period ending April 30, 1954 was less than half that experienced during the year 1952, it still exceeded \$5,000. On the basis of the estimate of operating results which we have adopted herein the proposed fare structure would reduce applicant's annual loss in rendering the services to \$4,100. The record now before us is convincing that applicant should be permitted to attempt, through the medium of increased fares, this further reduction in the losses incident to its Santa Cruz-Davenport passenger service.

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and finds as a fact that the proposed increased fares have been justified. The supplemental application will be granted.

---

<sup>9</sup> According to the record applicant's operating ratio for system passenger service in 1953 was 153.8 per cent. As stated above, the ratios estimated by applicant and the Commission's staff under the fares proposed herein are, for the rate year, 128.2 and 139.8 per cent, respectively.



O R D E R

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

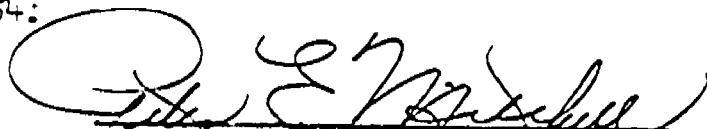

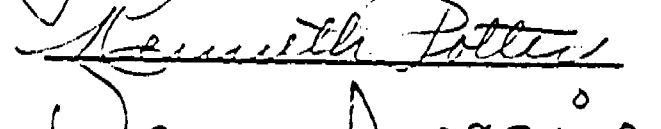
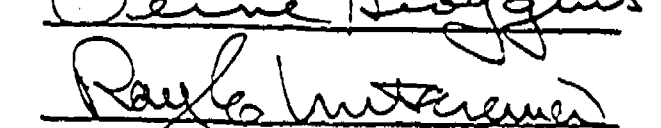
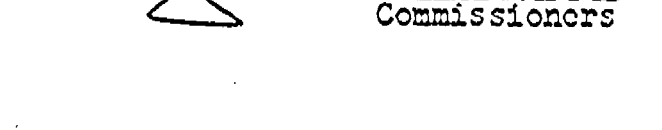
IT IS HEREBY ORDERED that Southern Pacific Company be and it is hereby authorized to cancel its present monthly commutation fare of \$7.50 applicable between Santa Cruz and Davenport; and to establish in lieu thereof a 22-ride fare of \$6 as proposed in the first supplemental application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that, in addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in the busses and terminals a printed explanation of its fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.

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 3rd  
day of NOVEMBER, 1954:

  
\_\_\_\_\_  
President  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners