

## ORIGINAL

Decision No. 51391

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 ) Application No. 35739  
San Francisco, San Jose and Los )  
Gatos and intermediate points. )

Randolph Karr and Charles W. Burkett, Jr., for  
Southern Pacific Company, applicant.

F. G. Pfrommer, for The Atchison, Topeka and  
Santa Fe Railway Company, Union Pacific  
Railroad Company and Western Pacific  
Railroad Company, intervenors on behalf of  
applicant.

John Ormasa, Assistant City Attorney, for the  
City of Richmond, protestant.

Walter I. Phillips, in propria persona; Robert R.  
Thompson, City Attorney, and Douglas Morgan,  
Councilman, for the City of Millbrae; Earl M.  
Wilms, Councilman for the City of Millbrae,  
for the North County Council Transportation  
Committee; L. E. Osborne, for the California  
Manufacturers Association; T. R. Phillips, for  
Western Growers Association; Karl A. Baldwin,  
Town Manager, for the Town of Los Gatos;  
Ed Soderberg, Secretary-Manager, for the  
Chamber of Commerce of Los Gatos, interested  
parties.

Harold J. McCarthy, Cyril M. Saroyan, John Pearson  
and John Donovan, for the Commission staff.

OPINION

On August 27, 1954, Southern Pacific Company filed its  
Application No. 35739 herein for authority to increase certain coach  
and commutation fares between San Francisco and San Jose and inter-  
mediate points via its main line, and between San Francisco and

Los Gatos and intermediate points via its main line and its so-called Los Altos Branch. The details of the proposed increase in fares are outlined in the application.

Applicant proposes:

(a) To increase the one-way and round-trip coach fares by 10 per cent, maintaining the present minimums.

(b) To increase the 10-ride family fares by 50¢ between San Francisco and South San Francisco, 75¢ between San Francisco and San Bruno, and \$1.00 between San Francisco and all other points, and to change the time limit of the 10-ride family fares to 30 days instead of the present three-month period. ✓

(c) To increase individual monthly commutation fares to and from San Francisco by the following amounts:

Monthly except Saturdays and Sundays	\$2.90
Monthly except Sundays	3.10
Monthly with no days excepted	3.30

(d) To increase by 75¢ individual weekly commutation fares between San Francisco and South San Francisco and to increase by 65¢ individual weekly commutation fares between San Francisco and other points.

(e) To make effective, between Bayshore, San Jose, Los Gatos and intermediate stations, individual monthly commutation fares, individual weekly commutation fares and 10-ride family fares on a basis related to one-way coach fares. The proposed weekly fare is 25 per cent of the monthly fare, and the proposed 10-ride family fare is 28 per cent of the monthly fare.

(f) To cancel the presently effective 30-ride family fares between all points.

(g) To make effective between all points 46-ride school commutation fares. The present 46-ride school commutation fares are applicable to students 12 years of age and over, with a lower fare for

students under 12 years of age. Applicant proposes to cancel this dual basis and to offer the same student fare to all students. The proposed 46-ride school commutation fares will be 60 per cent of the individual fares between the same points.

(h) To change the rules and regulations governing the redemption of tickets.

No change is proposed in first-class fares.

The application herein was consolidated for hearing with that phase of the Commission's investigation, Case No. 5234, dealing with the sufficiency of passenger train service of Southern Pacific Company between San Francisco and San Jose and intermediate points.

Public hearings were held before Commissioner Ray E.

Untereiner and Examiner Wilson E. Cline at San Francisco on December 8 and 9, 1954, and at Redwood City on December 10, 1954, before the Commission en banc at San Francisco on December 14, 1954, and again before Commissioner Ray E. Untereiner and Examiner Wilson E. Cline at San Francisco on January 19, 20, 21 and 31 and February 2 and 3, 1955.

During the course of the hearings the applicant suggested as an alternate modification of the proposed fares that the present 30-ride books be offered with an increase in fare of \$2.90 between San Francisco and each station other than South San Francisco where the increase would be \$2.25. Applicant further stated that it would have no objection to limiting to 30 days the period within which the 30-ride book could be used between San Francisco and Palo Alto and other points of 30 miles or greater distance, so that the passengers between such points would not be required to pay the Federal excise tax. ✓

At the conclusion of the hearing on February 3, 1954, with the consent of all parties, the Commission took under submission Application No. 35739 and continued Case No. 5234 to a date to be set.

At the hearing in San Francisco on December 9, 1954, the Southern Pacific Company completed its direct presentation of evidence in support of the application for fare increases, with the exception of the introduction into evidence of certain exhibits which were identified and were to be offered in evidence upon completion of cross-examination. Thereupon counsel for the Commission staff moved that the application be dismissed on the grounds that applicant had failed to meet the full burden of proof that it was required to bear in a proceeding of this nature. He took the position that, inasmuch as applicant had made no separation of its California intrastate investment, revenues and expenses, this Commission did not have sufficient evidence before it to enable it to determine whether applicant's present rates are confiscatory. Oral argument on this motion to dismiss was held before the Commission en banc at San Francisco on December 14, 1954, at which time the motion was taken under submission. The Commission itself did not rule on the motion, but at the opening of the hearing in San Francisco on January 19, 1955, Commissioner Untereiner stated that as Presiding Commissioner he was denying the motion so that the hearings could proceed without having the motion before the Commission. It was understood by all parties that the denial of the motion would in no way prejudice the right of the Commission staff counsel to renew the motion later in the proceedings, and on February 3, 1955, the Commission staff counsel renewed the motion to dismiss the application.

The Evidence in Support of Rate Relief

A. Service

A Vice-President of applicant, in charge of passenger traffic, testified that the commute service on the Peninsula operation compares very favorably with commute service offered by other railroads throughout the United States. Although much of the equipment is comparatively old, it has been reconditioned and is well maintained. Contrary to usual commute operation practices, the applicant effectively carries out its policy of providing a seat for every passenger. The applicant is in the process of adding to its equipment 10 new gallery-type commuter coaches which will make its service even more satisfactory to the passengers.

The request of the City of Millbrae for modification of the commute train schedules to provide more frequent evening service to the stations in the northern part of San Mateo County and the recommendations regarding service made by the Commission staff will be the subject of further investigation in later hearings in Case No. 5234.

The Town Manager of Los Gatos and the Secretary-Manager of the Los Gatos Chamber of Commerce supported the discontinuance of passenger services from Vasona Junction to Los Gatos as the first step in total discontinuance of all service, both passenger and freight, between these points. The Town of Los Gatos is desirous of obtaining the Southern Pacific right of way in Los Gatos for the purpose of developing additional parking facilities within the Town. If Southern Pacific wishes to discontinue such passenger service, it should file a formal application and such request will be given consideration.

Aside from these specific suggestions as to possible service changes, and a showing by the staff that substantial economies might be achieved by dieselization, virtually no evidence was offered to indicate that the service rendered by applicant on the Peninsula can or should be improved. In view of the fact that the commuting public was urged to present its views on two days of the hearings, one in Redwood City and one in San Francisco, the conclusion is warranted that the service rendered is satisfactory to applicant's commuter patrons.

B. Increase in Expenses and Rates and Fares

The assistant to the President of applicant testified that since February 17, 1950, the date of the closing of the record in Southern Pacific Company's Application No. 30619 for increased commute fares, there have been substantial increases in costs of operations. Wages have increased 31 per cent, material prices 24 per cent, and fuel oil 53 per cent. The increase of 31 per cent in wages does not include the cost of so-called fringe benefits, such as additional vacation allowances, hospital benefits, and increased costs arising from recent changes in the Railroad Retirement Tax. He stated that these additional fringe benefit costs will amount to \$7,056,000 annually for the entire operation of Southern Pacific Company. ✓

Both the Interstate Commerce Commission and this Commission have authorized increases in freight rates amounting to 15 per cent during this period of increasing costs. Effective July 15, 1952, under Decision No. 47244 of this Commission, one-way ✓

and round-trip special coach fares between Los Angeles and San Francisco were increased approximately 13-1/3 per cent. Basic one-way and round-trip first class and coach fares have been increased 10 per cent both by the Interstate Commerce Commission in the decision in Docket No. 31050 and by this Commission in Decision No. 49959. The increase in coach fares authorized in Decision No. 49959 did not apply to applicant'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 applicant's local operations between San Francisco and San Jose, Los Gatos and intermediate points. Passenger revenue per passenger mile has increased 9 per cent since 1949. Pullman rates were increased 15 per cent in 1951 and mail rates 10 per cent in 1953.

C. Comparison of Proposed Rates and Rates of Other Passenger Carriers

The proposed increased fares were presented through the assistant to the Vice President, System Passenger Traffic, of applicant. Exhibit No. 39 is a proof form of the proposed revised tariff with the 30-ride family fares incorporated. Exhibits Nos. 24, 25, 36, 38 and 40 set forth comparisons of present and proposed Peninsula fares of applicant including the 30-ride family fares. Exhibit No. 23 is a comparison of applicant's proposed one-way and round-trip fares between San Francisco, San Jose, and Los Gatos with

those of Pacific Greyhound Lines. Exhibits Nos. 26 and 27 show a comparison of applicant's proposed fares with those of other commutation rail carriers, including the Key System. These exhibits show that applicant's proposed fares are considerably lower than the fares of most of the other carriers with which the comparison is made.

D. Financial Results of Operation

The following table respecting operations of the Southern Pacific Company's entire system was prepared from testimony of the assistant to the President and from Exhibit No. 42.

<u>Period</u>	<u>Southern Pacific Transportation System</u>		<u>Southern Pacific Transportation System and Solely Controlled Affiliated Companies</u>	
	<u>Net Railway Operating Income</u>	<u>Rate of Return</u>	<u>Earnings Per Share</u>	<u>Dividends Per Share</u>
	<u>Annual Average</u>			
1931 to 1940	\$20,584,539	1.49%	\$0.21 Loss	\$0.27½
1941 to 1945	68,128,171	4.89%	7.02	0.87½
1946 to 1950	47,422,152	3.36%	4.99	2.30
	<u>For the Year</u>			
1951	\$56,561,013	3.64%	\$5.81	\$2.75
1952	71,683,546	4.51%	7.09	2.87½
1953	59,320,478	3.58%	6.85	3.00
Ending 9/30/54	47,762,127	2.86%		

Another witness, the assistant general auditor of applicant, also submitted evidence respecting the results of operation of applicant. Exhibit No. 4 shows, for the years 1949 to 1953, inclusive, and for the year ended September 30, 1954, the railway operating income and rate of return from the operation of applicant's Pacific Lines. The Pacific Lines' operations include the railroad properties terminating at Portland, Oregon, at

the north; Ogden, Utah, Tucumcari, New Mexico, and El Paso, Texas, to the east, and the Los Angeles area to the south. Exhibit No. 5 shows the income and rate of return for the Southern Pacific Transportation System, which in addition to the properties covered in the preceding exhibit, includes the lines in Texas and Louisiana which are separately operated by the Texas and New Orleans Railroad Company. Exhibit No. 6 shows, for the Southern Pacific Company system, results from the operation of passenger and allied services for the years 1947 to 1953, inclusive. Exhibit No. 7 shows the operating results of passenger and allied services both interstate and intrastate within the geographical limits of the State of California for the years 1947 to 1953, inclusive. Exhibit No. 45 contains data taken from the 1953 Southern Pacific Company and Leased Lines Annual Report Form A to this Commission.

The following information for the year ended September 30, 1954, is taken from Exhibits Nos. 4 and 5.

	<u>Southern Pacific Pacific Lines</u>	<u>Southern Pacific Transportation System</u>
Railway Operating Revenues	\$ 499,577,914	\$ 630,225,857
Railway Operating Expenses	<u>402,250,970</u>	<u>501,816,787</u>
Net Revenues from Railway Operations	<u>\$ 97,326,944</u>	<u>\$ 128,409,070</u>
Operating Ratio	<u>80.52</u>	<u>79.62</u>
Railway Taxes	\$ 43,806,310	\$ 55,249,446
Equipment and Joint Facility Rent - Net Dr.	<u>13,448,156</u>	<u>25,397,497</u>
Net Railway Operating Income	<u>\$ 40,072,478</u>	<u>\$ 47,762,127</u>
Property Used in Transportation Service		
(a) Net Book Value of Investment	\$1,376,364,129	\$1,667,792,480
(b) I. C. C. Valuation	1,021,383,795	1,341,500,646
Rate of Return - Per Cent		
(a) On Basis of Book Value	2.91	2.86
(b) On Basis of I.C.C. Valuation	3.92	3.56

The following figures for the year 1953 appear on Exhibits Nos. 6 and 7:

Results from Operation of Passenger and Allied Services

	<u>Over-All Operations</u>	<u>Within California</u>
Operating Expenses	\$107,810,940	\$53,700,629
Operating Revenues	<u>70,087,836</u>	<u>38,749,489</u>
Loss from Operations	\$ 37,723,104	\$14,951,140

The following information for the year 1953 respecting operations within the State of California is taken from Exhibit No. 45:

Road and Equipment Property	<u>\$856,814,241*</u>
Railway Operating Revenues	\$248,725,065
Railway Operating Expenses	<u>210,205,284</u>
Net Revenues for Railway Operations	\$ 38,519,781
State and Federal Taxes	<u>25,635,200</u>
Net After Taxes	\$ 12,884,581

\* Undepreciated original investment.

E. Out-of-Pocket Loss on Peninsula Operation

Both the applicant and the Commission staff engineer submitted studies respecting estimated results of operations under present and proposed fares for applicant's local Peninsula passenger operations. Only out-of-pocket expenses were included in these studies. Applicant's witness, the assistant to the Vice President for Passenger Traffic, testified that continuation of the 30-ride family ticket would reduce the additional revenue to be derived from the proposed fares approximately \$11,000. The Commission staff engineer's Exhibit No. 68 shows that if use of the 30-ride family ticket between San Francisco and Palo Alto and all points south of Palo Alto is limited to a period of one month instead of three months, revenues will be reduced an additional \$14,300, making a total reduction in revenues of \$25,300 as against the revenues under the proposed fares if the 30-ride family ticket were discontinued. The revenue estimates of applicant under proposed fares have therefore been reduced by \$25,300.

The estimated results of operation summarized from the exhibits in the record as modified herein are shown in the table which follows:

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant*</u>	<u>Commission Engineer</u>	<u>Applicant*</u>	<u>Commission Engineer</u>
	<u>Year 1955</u>		<u>Year 1955</u>	
<u>Revenues</u>				
Passenger including Adjustment for Free and Reduced Fare Passengers	\$3,523,294	\$3,633,600	\$4,199,249	\$4,168,400
Other	<u>603,924</u>	<u>603,900</u>	<u>603,924</u>	<u>603,900</u>
Total Revenues	\$4,127,218	\$4,237,500	\$4,803,173	\$4,772,300
<u>Expenses</u>				
Maintenance of Way and Structures, Maintenance of Equipment and Transportation	\$4,637,000	\$4,515,500	\$4,637,000	\$4,503,500
General, Miscellaneous and Payroll Taxes	<u>771,000</u>	<u>559,150</u>	<u>771,000</u>	<u>558,700</u>
Total Excluding Depreciation	\$5,408,000	\$5,074,650	\$5,408,000	\$5,062,200
Depreciation of Equipment	<u>179,000</u>	<u>129,050</u>	<u>179,000</u>	<u>129,050</u>
Total Including Depreciation	\$5,587,000	\$5,203,700	\$5,587,000	\$5,191,250
Operating Loss Excluding Depreciation	\$1,280,782	\$ 837,150	\$ 604,827	\$ 259,600
Operating Loss Including Depreciation	\$1,459,782	\$ 966,200	\$ 783,827	\$ 388,650

\* Applicant made no estimate of future results of operation under present fares. The figures in this column are for the period October 1, 1953 to September 30, 1954, with expenses for this period being adjusted for certain known changes. For results under proposed fares applicant's estimate of additional revenues to result from the fare increase were added to revenues for the period October 1, 1953 to September 30, 1954, and the same adjusted expense figures for this period were used.

Both the applicant and the Commission staff engineer showed that there will still be a substantial out-of-pocket loss on the Peninsula local passenger operations even with the additional revenues resulting from the proposed fares as modified in accordance with the offer of the applicant. In this opinion it is unnecessary to resolve the differences in the above estimates.

The following valuation figures of plant, used by commutation traffic jointly with mainline passenger traffic and freight traffic except as otherwise indicated, were submitted by applicant's witness, the assistant to the President. These figures were based on Interstate Commerce Commission engineering and lands reports using undepreciated costs.

<u>Type of Facility</u>	<u>Valuation</u>
San Francisco passenger terminal (includes station structure and all of the trackage and land used exclusively for the handling of passenger trains)	\$ 3,555,000
Passenger depot facilities at South San Francisco, Palo Alto and San Jose	412,000
Line from San Bruno to San Jose	7,146,000
Line from California Avenue to Los Gatos	921,000
Line from San Francisco to San Bruno (some part of which remains after separation of higher valuation attached to freight facilities)	29,966,000
Locomotives and cars assigned to commutation service	6,219,800

F. Estimated Savings with Complete Dieselization of Commute Service

The Commission staff engineer submitted an estimate of the savings in operating expenses which would result from the complete dieselization of the commute service. He proposed to substitute eleven 1500 horsepower and eleven 2400 horsepower Fairbanks Morse diesel locomotives for 22 steam locomotives now in use. He proposed that the diesels used in the road operation could also be used in switching. The estimated investment in additional diesel locomotives would amount to \$5,060,000. He estimated a total annual savings in operating expenses resulting from complete dieselization of \$810,400.

After an allowance for interest on investment and depreciation the estimated net annual savings would amount to \$490,100, according to his estimate.

Applicant's witnesses pointed out that difficulties would be experienced in using the road equipment also for switching purposes. They testified also that even the 2400 horsepower diesels are not powerful enough to maintain the present schedules for the longer commute trains. One of their witnesses, an assistant engineer in applicant's Bureau of Transportation Research, testified that a more satisfactory plan for complete dieselization would require the acquisition of 34 GP-9, 1750 horsepower EMD locomotives at an investment of \$6,538,000. These units could be operated in tandem on certain of the heavy trains. He estimated that by using this equipment the annual saving in operating expenses would be \$695,000 and that after allowance for interest on investment and depreciation the net annual saving would amount to \$281,500. In view of the limited amount of testimony on the subject this amount (\$281,500) will be accepted as a reasonable minimum estimate of the annual savings which could be realized by complete dieselization.

There is no evidence in the record that the substitution of diesel for steam locomotives would result in an improved service, but it is clear that a completely dieselized operation would be more efficient and economical. Applicant will be permitted to exercise its own discretion with respect to taking advantage of the economies resulting from complete dieselization, but the fare-paying passengers should not be required to bear the added cost of the less economical steam operation. However, even assuming an additional reduction in expenses of \$281,500 applicant's Peninsula local passenger service would still be operated at an out-of-pocket loss under the modified proposed fares. Applicant's estimate of out-of-pocket loss, including depreciation, will be adjusted to \$502,327 and the corresponding loss estimate of the Commission staff engineer will be adjusted to \$107,150.

The reduction of applicant's estimated out-of-pocket loss of \$1,459,782 under present fares and mixed steam and diesel operation to \$502,327 under the modified proposed fares and complete diesel operation results in a total saving of \$957,455. Reducing the Commission staff engineer's estimate of out-of-pocket loss from \$966,200 to \$107,150 results in a saving of \$859,050. As shown on Exhibit No. 45, from data taken from applicant's Annual Report Form A, applicant's road and equipment within California amounts to \$856,814,241. A saving of \$957,455 or \$859,050 represents a very small percentage of applicant's road and equipment property within California.

G. Protest to Burden Imposed on Freight Rates by Passenger Losses

A witness called on behalf of the California Manufacturers Association, and the Traffic Manager for the Western Growers Association, both offered testimony in support of the reduction of passenger deficits. In establishing freight rates, the Interstate Commerce Commission admittedly takes into consideration passenger deficits of rail carriers. Any reduction in passenger deficits will decrease the burden now imposed on freight rates. Freight rates affect vital segments of our economy. These witnesses contended that passenger fares should be established at a level which will impose the least possible burden upon freight traffic.

Exhibits 51 through 57 are excerpts from statements made by various experts pointing out that passenger deficits are now being passed on to the shippers of freight and urging that the shippers be relieved from this burden wherever possible.

Evidence Offered by Commuters

One public witness testified in opposition to any increase in passenger fares. Another testified in opposition to the elimination of the 30-ride family ticket.

The Redwood City Commuters Club on Wednesday, November 10, 1954, conducted a survey of the commuters. Eight thousand questionnaires were distributed and 1,978 responses were received and tabulated. The tabulation shows that 1,851 were against any increase and 127 were in favor of an increase in fares. Of the 1,978 responses 660 were submitted by commuters using 30-ride family tickets.

Summary of the Evidence

A careful consideration of the record discloses that it is clearly in evidence that applicant's commute services on the Peninsula are generally excellent; that they are now offered at rates which result in substantial out-of-pocket losses to applicant; that the proposed rates would reduce, but not eliminate these out-of-pocket losses; and that even the economies of complete diesellization, combined with the sought fare increases, would not enable the applicant to operate without an out-of-pocket loss. On the facts, the case for the proposed fare increases has been proved and we hereby find that such proposed increases are justified.

Having arrived at the foregoing conclusion, it follows that the motion of Staff Counsel must be denied. We hereby find that the special circumstances of this case are such that a separation of operating results and properties of applicant is unnecessary. ✓

O R D E R

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

IT IS HEREBY ORDERED that the motion of the Commission staff counsel that Application No. 35739 be dismissed, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that Southern Pacific Company be and it is hereby authorized, on not less than five days' notice to the Commission and to the public, to increase its local passenger fares between San Francisco, San Jose, Los Gatos and intermediate stations and to modify its rules and regulations governing such fares in accordance with Exhibit No. 39 which is its proposed Local Passenger Tariff D-No. 7, canceling Local Passenger Tariff D-No. 6, further modified to provide that the 30-ride family tickets between San Francisco and Palo Alto and all points south of Palo Alto shall be valid only for a period of one month from date of purchase.

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

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby directed to post and maintain in its passenger cars operated on its local Peninsula service and in its depots at San Francisco, San Jose, Los Gatos and intermediate stations

a notice of the increased fares and modified rules and regulations herein authorized. Such notice shall be posted not less than five days prior to the effective date of such fares and rules and regulations and shall remain posted for a period of not less than thirty days.

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

Dated at San Francisco, California, this 26<sup>th</sup> day of April, 1955.

*Edwin E. Mitchell*  
President  
*ANATHA F. C. ...*  
*...*  
*...*  
Commissioners