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Decision No. 59712

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of NORTHWESTERN PACIFIC RAILROAD COMPANY, SAN DIEGO & ARIZONA EASTERN RAILWAY COMPANY, SOUTHERN PACIFIC COMPANY, THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY, THE WESTERN PACIFIC RAILROAD COMPANY and SANTA FE TRANSPORTATION COMPANY to increase certain one-way and round-trip passenger fares.	Application No. 41374

Charles W. Burkett, Jr. and John MacDonald Smith, for Northwestern Pacific Railroad Company, San Diego and Arizona Eastern Railway Company and Southern Pacific Company; Frederick G. Pfrommer, for The Atchison, Topeka and Santa Fe Railway Company, Santa Fe Transportation Company and The Western Pacific Railroad Company; Walter G. Treanor, for The Western Pacific Railroad Company, applicants.

J. F. DuPaul, by Frederick B. Holoboff, for the City of San Diego; William V. Ellis for California State Legislative Board, Brotherhood of Locomotive Firemen and Enginemen, interested parties.

Harold J. McCarthy and John L. Pearson, for the Commission's staff.

OPINION

Applicants, with one exception, are common carriers of passengers by railroad.[1] By this application, filed on August 6, 1959, they seek authority to increase certain of their intrastate passenger fares between points in California.

Public hearing of the application was held before Commission Matthew J. Dooley and Examiner Carter R. Bishop at San Francisco on October 28 and November 6, 1959.

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1 Santa Fe Transportation Company is a passenger stage corporation and a highway common carrier. It is a subsidiary of The Atchison, Topeka and Santa Fe Railway Company.

Applicants propose to increase by five percent their one-way and round-trip coach fares, including bus fares of Santa Fe Transportation Company,[2] subject to certain exceptions and modifications. No change is proposed in first-class fares, nor in the individual commutation and multiple-ride fares of Southern Pacific applicable between San Francisco, San Jose, Vasona, and stations intermediate thereto.

Special coach fares of Southern Pacific between San Francisco, Oakland and Sacramento, on the one hand, and Los Angeles, on the other hand, would be increased from $9.50 to $10.00, one way, and from $17.10 to $18.00 round trip. The coach and parlor car portions of certain "mixed" class fares would be increased by five percent.

Santa Fe and Transportation propose to increase their one-way and round-trip coordinated coach fares between Los Angeles and San Francisco and intermediate points to the same level or basis as would result from the application of the proposed increases to the coach fares of Southern Pacific Company via the San Joaquin Valley. Thus, the coordinated Santa Fe-Transportation coach fares between San Francisco and Los Angeles would be increased from $9.00 to $10.00, one way, and from $16.20 to $18.00, round trip, reflecting increases of 11 percent.

Transportation proposes to increase its local fares between Hanford and Porterville and intermediate points to the level of fares applicable via Orange Belt Stages between the same points. The application states that, under authority from this Commission, a train-connecting passenger stage operation between Hanford and Porterville

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2 Santa Fe Transportation Company, The Atchison, Topeka and Santa Fe Railway Company and Northwestern Pacific Railroad Company will be hereinafter referred to as "Transportation", "Santa Fe" and "Northwestern", respectively.

and intermediate points is performed by Orange Belt Stages for Transportation. Under this arrangement the former receives its local fare from the latter as compensation for this service. Because of the higher fares of Orange Belt Stages, that carrier is now paid for the service in question more than Transportation collects from the passengers.

Certain other minor fare modifications are proposed in the application. It is not deemed necessary here to recount them.

Evidence in support of the application was introduced through officials of the accounting departments of Santa Fe and Western Pacific, of the bureau of transportation research of Southern Pacific, and of the passenger traffic departments of these three applicants. The Commission's staff, through its assigned counsel, assisted in the development of the record.

According to the aforementioned passenger traffic officials, the proposed fare increase of five percent is patterned after an increase in passenger fares accorded applicants by the Interstate Commerce Commission on interstate traffic between California and other states. That increase, according to the record, became effective July 25, 1959. With certain exceptions the increases sought herein would place California intrastate coach fares on the same per-mile level as now prevails on interstate movements. The proposed fares, however, between San Francisco-Sacramento and Los Angeles and points intermediate thereto via the San Joaquin Valley, as well as other fares based thereon, would still fall below the rate per-mile of said interstate fares.[3]

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3 The record indicates that if the proposed increased fares are established, all fares of Santa Fe and Transportation involved herein will still fall short of the interstate basic fare and that applicable in eight other states served by Santa Fe's passenger trains.

The accounting and research witnesses testified concerning studies which they had made purporting to show the financial results of their respective companies in the transportation of intrastate passengers between points in California. The basic period selected for these studies was the calendar year 1958. These operating results are summarized in Table I, below.

TABLE I

Revenues, Expenses and Net Railway Operating Income for California Intrastate Passenger Traffic-Year 1958

Applicant	Revenues	Expenses	#Net
Southern Pacific	$15,487,283	$26,451,576	$(10,964,293)
Santa Fe	3,261,785	9,655,040	(6,393,255)
Western Pacific	86,914	188,650	(101,736)
Transportation	184,046	167,315	16,731

#Does not include state or federal income taxes.

( ) Indicates loss.

In arriving at the results set forth above the witnesses found it necessary to segregate California intrastate revenues and expenses from those relating to other traffic, and to segregate expenses incurred in passenger operations from those arising from the freight service. In many instances allocations of expenses, and, to a minor extent, of revenues were necessary as between the aforementioned categories of service. These allocations were made on various bases, depending on the particular circumstances. According to the record, the witnesses, in developing the intrastate passenger operating results, followed the procedures which had been employed in the studies introduced in the hearings in Application No. 38557. That proceeding involved the question of statewide increases in freight rates.[4]

[4] In the proceeding in question the carriers developed separately California intrastate operating results for both freight and passenger services. The general plan of procedure which was followed is set forth in Appendix "A" to Decision No. 58226, dated April 7, 1959, in Application No. 38557 (57 Cal. P.U.C. 117).

It is not deemed necessary in this opinion to describe the aforementioned procedures by which applicants' witnesses arrived at the figures set forth in Table I. It should be pointed out, however, that through questioning of the witnesses, staff counsel brought to light what appear to be weaknesses in certain of the procedures utilized in the separation studies. For example, it was indicated that if the Southern Pacific witness had excluded the statistics and expenses incurred in the San Francisco peninsula commutation service in determining certain weighting factors for intrastate versus interstate expense the final result for the total California intrastate operating expenses of Southern Pacific as developed in the study would have been reduced by $2,000,000. The record indicates that the transportation characteristics and expenses of the commutation service are different from those of so-called line-haul passenger traffic.

The above-mentioned accounting and research witnesses also introduced exhibits purporting to show the results of operation (as set forth in Table I, supra) adjusted to reflect passenger train revenue and expense levels as of July 1, 1959 and further adjusted to include the estimated additional revenue under the fare increases herein sought. These estimated operating results are summarized in Table II, below.

TABLE II

Estimated California Intrastate Passenger
Operating Results for Year 1958 (Adjusted)

Applicant	Revenues	Expenses	#Net
Southern Pacific	$15,995,806	$27,313,897	$(11,318,091)
Santa Fe*	3,601,424	10,140,599	(6,539,175)
Western Pacific	91,282	192,193	(100,911)

#Does not include state or federal income taxes.

*Includes adjusted revenues and adjusted expenses for Santa Fe Transportation Company.

( ) Indicates loss.

The estimated increased revenues reflected by Table II include, in addition to those anticipated under the proposals herein, revenues resulting from express rate increases which were granted in 1959 and those arising from increases in mail pay. The adjustments in operating expenses give effect to increased operating costs, including the items of wages, payroll expense, fuel and materials.

Passenger traffic officials of Southern Pacific and Santa Fe testified that they did not anticipate any appreciable loss in traffic in the event that the sought fare increases were approved. This judgment, they stated, was predicated on the modest amount of the increases and their past experience with previous comparable fare increases. The record discloses the following carrier estimates of additional revenues, per annum, under the proposed fares: Southern Pacific, $120,000; Santa Fe, $117,500; Northwestern Pacific, $275. The traffic witness for Western Pacific pointed out that in view of the relatively small amount of passenger service provided by his company within California, the additional revenues to be expected by that carrier under the sought fare increases would be minor.

An assistant general passenger traffic manager of Santa Fe testified regarding the steps which that carrier has taken in an effort to stimulate passenger traffic. This program includes such practices as: the use of a "travel tip" card system under which employees of all departments are urged to notify the traffic personnel of prospective trips which come to their attention; periodic sales meetings conducted by the general passenger traffic manager; the promotion of rail travel credit cards and of automobile rental services for travelers; the installation of a push button electronic train reservation system, which expedites the placing of chair car seat and pullman reservations; periodic "good service" meetings with passenger train and station employees. This witness further testified that Santa Fe's advertising budget is approximately $2,500,000 per year, 85 percent of which is devoted to the passenger service.

Southern Pacific offered no evidence regarding its passenger traffic solicitation program, such as that described above in connection with Santa Fe. We here take official notice of the fact, however, that the matter of the adequacy of Southern Pacific passenger service is now formally before this Commission in another proceeding, namely Case No. 5829.[5]

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5 By Decision No. 58111, hereinbefore mentioned, Southern Pacific was directed to develop and file with the Commission a plan for the improvement and encouragement of passenger service within California. It appears that on September 30, 1959 a document was filed with the Commission by that carrier purportedly in compliance with the above-mentioned directive. At the opening of the hearing in the instant proceeding counsel for the Commission's staff moved that Application No. 41374, insofar as it involved Southern Pacific, be dismissed until the carrier in question should have complied with said directive in Decision No. 58111. Counsel's motion was based on the premise that service is a matter which is integrally tied into a rate application, and on the conclusion of the staff that the afore-mentioned document was not responsive to the Commission's directive. At the time the motion was made the Commission had not formally considered Southern Pacific's report of September 30, 1959. At the conclusion of the hearing in the instant proceeding the presiding Commissioner denied the staff motion. While we approve the denial of said motion, we place Southern Pacific on notice that such action is not to be construed as relieving it of the duty of complying with the requirements of Decision No. 58111.

Notices of the hearing in this proceeding were posted in applicants' depots and in the passenger trains serving the points involved. Additionally, the Commission's secretary sent notices of hearing to persons and organizations believed to be interested. No one appeared in opposition to the granting of the application.

Conclusions

The type of cost evidence adduced in this proceeding differs from that offered in prior passenger fare increase application of these carriers in that herein the major applicants have attempted to develop full costs of performing California intrastate passenger service, whereas in prior fare increases proceedings the expense showings were confined to out-of-pocket costs. We have hereinbefore indicated that there were some weaknesses in the procedures employed by the carriers in the development of their cost studies. However, the allocated expenses exceed revenue by such magnitude that even with substantial reductions in expenses which may be required, it does not appear that the end results would be changed to an earning position.

According to the results summarized in Table I, the 1958 California intrastate passenger operations of all three rail applicants shown resulted in deficits, those of Southern Pacific and Santa Fe being substantial. The table indicates that a modest profit, before income taxes, was produced during the same period by the passenger operations of Transportation, the passenger stage subsidiary of Santa Fe. Even if the application herein were to be granted in full, the additional revenues to be derived from the increased fares would not, according to the estimates of the carrier witnesses, be sufficient to place the intrastate passenger service "in the black". The estimated deficits, as summarized in Table II, would be even greater for Southern Pacific and Santa Fe than those experienced in 1958. The reason for this is that estimated passenger operating expenses have increased since 1958 by a larger amount than the estimated increase in passenger revenues under the proposal herein.

The record shows that despite aggressive efforts, on the part of the Santa Fe, to promote rail passenger traffic, there has been a long-range decline in the volume of such traffic between points in California. The record indicates, however, that the loss of traffic to be expected as a direct result of the increased fares herein sought will be negligible. At the same time, the additional revenues to be derived from said fares will serve to lessen applicants' passenger traffic losses.

The coach fares applicable between San Francisco Bay points and Los Angeles are on a lower basis than is generally applicable elsewhere in California. This situation has prevailed from the time, over twenty years ago, when Santa Fe and Transportation commenced their coordinated service between the points in question, Santa Fe performing the rail movement north of Bakersfield, and Transportation rendering its part of the service by highway south of that point. Historically, the San Francisco-Los Angeles coach fares via Santa Fe have been and are slightly lower than those applicable via Southern Pacific. This differential gave recognition to the fact that via the Santa Fe route it was necessary to change at Bakersfield from train to bus, or vice versa, whereas via Southern Pacific passengers traversed the entire route between San Francisco Bay and Los Angeles without change.[6]

In the instant application, as previously stated, Santa Fe proposes to eliminate the above-mentioned differential by increasing its San Francisco-Los Angeles one-way and round-trip coach fares to the proposed new level of the Southern Pacific fares. In justification of this plan a Santa Fe traffic witness pointed out that, a

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6 Passengers via both Santa Fe and Southern Pacific (San Joaquin Valley route) change from train to bus, or vice versa, on the east shore of San Francisco Bay when going from or to San Francisco.

short time ago, Southern Pacific and Santa Fe tickets between San Francisco and Los Angeles via San Joaquin Valley were, under authority of this Commission, made interchangeable. Because of the higher S. P. fares, he stated, the Santa Fe has been required to make up the difference to the Southern Pacific for each passenger riding on the latter road on a Santa Fe ticket under this arrangement. It appears that the financial burden thus placed on the Santa Fe should not be continued and that the elimination of the above-mentioned long-standing fare differential has been justified.

Upon careful consideration of all the facts and circumstances of record, we are of the opinion and hereby find that the fare increases proposed in this proceeding, insofar as they relate to Southern Pacific, Santa Fe, Western Pacific and Transportation, have been justified. As to these carriers the application will be granted.

The passenger service of Northwestern is confined to the operation of a single train three times per week in each direction between Willits and Eureka. The record contains no evidence regarding the financial results of operation of this restricted service. San Diego & Arizona Eastern has operated no passenger service for several years past. Nevertheless, it maintains passenger fare tariffs on file with this Commission. No evidence specifically relating to this carrier's fares was offered, nor was any reason given for maintaining same in the absence of passenger service. Apart from the additional revenue estimate for Northwestern, the only evidence of record which could be construed as relating to the fares of either of the carriers here under consideration is the desire of applicants to maintain intrastate fares on the same level as those applicable to interstate traffic. The sought fare increases, insofar as they relate to Northwestern and San Diego & Arizona Eastern have not been justified. The application, as it relates to these carriers, will be denied, and the latter carrier will be authorized and directed to cancel its passenger tariffs, insofar as they apply to California intrastate traffic.

Applicants request relief from those provisions of the Commission's Tariff Circular No. 2 which (1) require the indication of fare increases by symbols and (2) limit the amount of supplemental matter to a tariff which may be in effect. Because of the provisions of Section 491 of the Public Utilities Code, applicants cannot be relieved of the symboling requirements of the tariff circular. The request for relief from the rule relating to tariff supplement material appears reasonable. It will be granted.

In view of the urgent need for additional revenues, applicants will be permitted to establish the increased fares, hereinafter authorized, on less than statutory notice.

O R D E R

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

IT IS ORDERED that:

(1) Southern Pacific Company, The Atchison, Topeka and Santa Fe Railway Company, The Western Pacific Railroad Company, and Santa Fe Transportation 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 as proposed in the application filed in this proceeding.

(2) In publishing said increased fares, applicants be and they are hereby authorized to depart from the requirements of Rule 43(d) of Tariff Circular No. 2 of the Commission.

(3) San Diego & Arizona Eastern Railway be and it is hereby authorized and directed to cancel its passenger tariffs, insofar as they apply to California intrastate traffic.

(4) The authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

(5) In all other respects Application No. 41374 be and it is hereby denied.

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

Dated at San Francisco, California, this 23rd day of FEBRUARY, 1960.

President

Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.