

ORIGINALDecision No. 65043

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 THE PULLMAN COMPANY for authority)
 under Sections 454 and 491 of the)
 Public Utilities Code, to increase)
 rates.)

Application No. 44746

Clair MacLeod and Martin J. Rock, for applicant.
William V. Ellis, for California State Legislative
 Board, Brotherhood of Locomotive Firemen and
 Enginemen, protestant.
Albert C. Porter, for the Commission staff.

O P I N I O N

The Pullman Company is a common carrier engaged in the operation of sleeping cars over various railroad lines in California. By this application it seeks authority to increase by ten percent its fares for sleeping and seating accommodations for California intrastate trips on and via Southern Pacific Company. No increase is proposed, however, for the use of standard sleeping cars for round trips at per diem rates.^{1/}

Public hearing was held before Examiner Bishop at San Francisco on October 31, 1962. Notices of hearing had been sent out in advance to numerous organizations and individuals throughout the State, including public officials, chambers of commerce, the military, and others. At the hearing evidence was presented through applicant's general passenger agent and through its assistant controller.

^{1/} Examples of present and proposed fares are set forth in Appendix A, attached hereto.

The most recent general adjustment of applicant's California intrastate fares became effective on June 18, 1959, following the issuance of Decision No. 58538, dated June 2, 1959, in Application No. 40913. By that decision Pullman was authorized to increase by five percent its fares for the night use of sleeping accommodations on and via Southern Pacific.^{2/} According to the application herein, increases in operating costs which have transpired in the intervening period make necessary the generation of additional revenues in order to enable applicant to provide and maintain adequate service and facilities.

An exhibit introduced by the accounting witness shows the results of applicant's nationwide operations for the calendar year 1961. The net result for the period in question was a deficit of \$12,158,445, with a corresponding operating ratio of 123.7 percent. According to another exhibit, operating expenses for the system have increased by \$2,183,000 since August 1, 1960. These increases do not include anticipated increases in wage rates of Pullman conductors, agreement for which had not been reached at the time of hearing. According to the witness, the increases in operating costs apply with equal force to the California intrastate operations.

Results of operations of applicant's services in connection with trains operated by Southern Pacific within California for the same 12-month period ending December 31, 1961 were also included in the record. Actual operating results were compared with those which, according to applicant's estimate, would have been experienced under present and proposed fares, respectively,

^{2/} By Decisions Nos. 61194 and 61565, dated December 30, 1960 and February 21, 1961, respectively, minor increases in room accommodations and increases in charges for exclusive occupancy of sleepers and for round trips at per diem rates, were authorized.

had the above-mentioned increases in operating expenses been in effect during the entire period in question. These results are summarized in Table I, below.

<u>Item</u>	<u>Actual</u>	<u>Estimated</u>	
		<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Revenue	\$640,317	\$640,317	\$704,348
Operating Expenses	<u>797,194</u>	<u>821,109</u>	<u>821,109</u>
Net Operating Revenue	(\$156,877)	(\$180,792)	(\$116,761)
Operating Ratio	124.5%	*128.2%	116.6%

() - Indicates red figure.
* - Calculated by staff.

The operating results set forth above do not include a small amount of revenue from intrastate Pullman passengers traveling on interstate trains, nor revenue of \$51,277 obtained from intrastate special movements. Expenses for the special movements, the auditor testified, amounted to \$66,000.

The fare increases herein sought, the general passenger agent stated, correspond to increases of the same percentage which became effective October 1, 1962 on interstate traffic on and via Southern Pacific and on certain other, but not all, Western railroads. Corresponding increases have also gone into effect on intrastate traffic in some other states. ✓

Over a period of years there has been a continuing decline in the volume of Pullman traffic. Applicant's traffic witness was of the opinion, however, that the proposed increased fares would not result in any appreciable impairment of the existing level of patronage and that they would yield the needed additional revenue contemplated by the application. His testimony further discloses ✓

that, while the increases are sought only in connection with Pullman operations over the lines of Southern Pacific, no other railroad provides Pullman sleeping car service in trains operating wholly within California. Moreover, the schedules and routes of interstate passenger trains of other roads, as well as of Southern Pacific trains, are such as to make it generally impracticable to utilize those trains for overnight trips within California. Additionally, the sale of Pullman seat space for daytime intrastate trips, the record shows, comprises only a very small portion of applicant's California intrastate revenues. Thus the increases herein proposed relate almost entirely to the fares for Pullman sleeping accommodations on two Southern Pacific trains, the "Lark" and the "Owl", operating between San Francisco Bay terminals and Los Angeles via the Coast and Valley routes, respectively. The principal Pullman traffic is handled on the Lark, since the Owl now carries only one regularly scheduled Pullman car.

Effective November 16, 1962, the federal transportation tax of ten percent for rail passenger movements was eliminated. The general passenger agent testified that the action of Pullman Company in raising its interstate fares and in seeking authority to increase its intrastate fares by the same amount of ten percent was not prompted by the cancellation of the federal tax. At the time, early in 1962, when the decision was made to increase applicant's fares, he said, it was not known that Congress would act to eliminate the aforesaid tax.

The accounting witness introduced an exhibit which showed the downward trend of applicant's California intrastate traffic.

In Table II, below, are summarized from that exhibit the Pullman passengers carried and the revenue received therefrom during each of the years 1957 to 1961, inclusive. The data relate to the above-mentioned trains and to the West Coast, which carried Pullman sleeping accommodations between Sacramento and Los Angeles until its discontinuance on December 8, 1960.

TABLE II

Revenue and Traffic Statistics of Pullman
Passengers Carried on Southern Pacific Trains

<u>Berth Passengers</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>	<u>1957</u>
Lark	53,847	55,691	63,162	78,486	87,966
Owl	15,249	16,304	19,399	22,590	28,636
West Coast	*	7,247	9,737	10,830	13,579
Total	<u>69,096</u>	<u>79,242</u>	<u>92,298</u>	<u>111,906</u>	<u>130,181</u>
<u>#Revenue</u>					
Lark	\$518,698	\$519,405	\$599,343	\$709,543	\$703,646
Owl	121,619	120,990	142,121	153,390	173,545
West Coast	*	60,526	84,543	81,868	94,087
	<u>\$640,317</u>	<u>\$700,921</u>	<u>\$826,007</u>	<u>\$944,801</u>	<u>\$971,278</u>

Includes revenue from seat passengers.

* Operation of West Coast discontinued effective December 8, 1960.

The general passenger agent testified at some length regarding the sharp downward trend in applicant's traffic which it has experienced in all parts of the country in the post-war period. The primary factor responsible for this decline, he stated, was the greatly increased use of the passenger automobile, stimulated by the federal program of improved highways and of more freeways. The second factor, he said, was the greatly increased use of air transportation, attractive because of its extreme swiftness, in

intermediate and long distance travel.^{3/} Of all types and classes of surface for-hire transportation, he asserted, Pullman traffic is most susceptible to the inroads of the private automobile and the airlines. In his opinion, the downward trend in applicant's volume of business would continue.

The traffic witness testified also regarding experiments that had been made in various parts of the country to induce a return to travel by Pullman and to improve the company's financial position, such as the establishment of reduced fares and newer types of equipment having greater passenger capacity. Here it should be pointed out that under present contractual arrangements between applicant and the rail lines the sleeping cars are owned by the latter and leased to applicant. Thus, the rail lines decide the type of Pullman equipment to be used, as well as the schedules of the trains on which the sleeping cars are handled. Thus, it appears that the opportunity which applicant has to bring about changes in schedules, equipment or rail fares in order to increase the volume of Pullman traffic is strictly limited.

The Lark, the general passenger agent said, is primarily a businessman's train. He was of the opinion that the use on that train of types of sleepers such as the "Slumber Coach", with small compartments and Spartan accommodations, would be greatly resisted by the clientele. The bedrooms, he said, are the most popular

^{3/} The witness gave the following comparative traffic figures in intercity passenger miles, taken from a study dated June, 1962, prepared by R. L. Banks and Associates:

<u>Via</u>	<u>1960</u>	<u>1957</u>
Private automobile	678,000,000,000	645,000,000,000
Scheduled airlines	30,400,000,000	25,200,000,000
Rail (first class)	3,600,000,000	5,200,000,000

accommodation on the Lark and the roomettes usually are sold only when there are no more bedrooms available. He felt that the Pullman revenues from that train would be considerably augmented if more bedrooms and fewer roomettes were carried. The railroad company, he indicated, is naturally reluctant to purchase the new cars, at a cost of from \$250,000 to \$300,000 each, which would be entailed in carrying out such a plan.

Granting of the application was opposed by the California State Legislative Board of the Brotherhood of Locomotive Firemen and Enginemen. The representative of that organization confined his participation to examination of applicant's witnesses. A transportation engineer from the Commission's staff assisted in the development of the record.

Discussion and Findings

The figures in Table II, preceding, show clearly how rapidly applicant's California intrastate traffic has been declining in the past half-dozen years. The record indicates that this trend has been manifested for many more years than are embraced by the table. Other figures hereinbefore set forth show that applicant's California experience reflects, on a relatively small scale, what has been transpiring on a national scale during the same period. Thus the decline in Pullman traffic in California is not attributable principally to circumstances local to this State. The record indicates that the problem is not one that is directly related to the level of Pullman fares. Moreover, the steps which applicant might desire to take to increase traffic are subject to the overriding policies of the railroads over which it operates.^{4/}

^{4/} In Case No. 7158, Sub. 3, the Commission has instituted an investigation into various phases of passenger transportation by land, including operations of applicant. Public hearings in that proceeding have not yet been scheduled.

With respect to its showing of operating results for 1961 and for the projected rate year under present and proposed fares, as summarized in Table I, preceding, the expense figures were developed from average unit costs, following the same methods which have been used in prior fare increase proceedings before this Commission. According to the accounting witness, the development of actual labor expense figures by Pullman line numbers, for example, would constitute an overwhelming task. It appears that the costs assigned by the accountant to applicant's California intrastate operations for 1961 and his estimates for the projected rate year are sufficiently accurate for the purposes of this proceeding. According to the figures in Table I, the operations here in issue resulted in substantial losses in 1961, and even under the proposed fares would still result in a deficit of approximately \$117,000, with an operating ratio of 116.6 percent.

The record shows, moreover, that as traffic has declined applicant has trimmed its operating expenses by reducing the number of sleeping cars in service and making corresponding reductions in the number of employees.

The record discloses that, under applicant's operating contract with the railroads, any losses incurred in applicant's operations are absorbed by the railroads over which the deficit service is conducted. The accounting witness pointed out, however,

that his company is greatly concerned about reducing the operating losses, as the integrity of its services is at stake. He testified that one large eastern carrier has already terminated its relationship with applicant and that another is threatening to follow suit.

Upon consideration of all the facts and circumstances, the Commission finds that the sought fare increases have been justified. The application will be granted. Applicant has requested that it be permitted to establish the proposed fares on less than statutory notice. The request appears reasonable; it will be granted. Also, in view of applicant's urgent need for additional revenues, the order which follows will be made effective ten days after the date hereof.

O R D E R

IT IS ORDERED that:

1. The Pullman Company is authorized to establish the increased fares proposed in Application No. 44746. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

2. In publishing the increased rates authorized by paragraph 1 of this order disposition of fractions shall be made as set forth in Exhibit A, attached to said application.

3. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 6th day of MARCH, 1963.

George F. Turner
President

Frederick B. Holcomb

William W. Bennett

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Comparison of Present and Proposed Fares
for Sleeping Accommodations between
San Francisco and Los Angeles

<u>Accommodation</u>	<u>Fares</u>	
	<u>Present</u>	<u>Proposed</u>
Lower Berth	\$ 6.10	\$ 6.70
Upper Berth	4.60	5.05
Section	7.95	8.75
Roomette	10.20	11.20
Bedroom (one passenger)	14.75	16.25
Bedroom (two or more passengers)	18.05	19.85
Compartment (one passenger)	15.55	17.10
Compartment (two or more passengers)	19.45	21.40
Drawing Room (one passenger)	21.05	23.15
Drawing Room (two or more passengers)	26.35	29.00