GH

Decision No. 66112

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN PACIFIC COMPANY and THE WESTERN PACIFIC RAILROAD COMPANY to increase one-way and round-trip first class and coach class passenger fares (except local fares between San Francisco, San Jose and Vasona).	Application No. 45296 (Filed March 29, 1963)

Charles W. Burkett, for applicant Southern Pacific Company.
Walter G. Treanor, for applicant The Western Pacific Railroad Company.
Timothy J. Canty and A. C. Porter, for the Commission staff.

OPINION

Applicants, Southern Pacific Company and The Western Pacific Railroad Company, are common carriers of passengers by railroad.[1/] In this application they seek to increase certain of their intrastate passenger fares.

Public hearing on this application was held before Examiner Turpen on July 30, 1963, at San Francisco.

Applicants propose to increase by 10 percent their first class and coach class one-way and round-trip fares between points in California, except Southern Pacific's local fares between San Francisco, San Jose and Vasona (Peninsula commutation service). The coach and parlor car portions of certain "mixed" class fares of Southern Pacific would be increased 10 percent. The special coach fares of Southern Pacific between San Francisco, Oakland and Sacramento, on the one hand, and Los Angeles, on the other hand,

1/ Southern Pacific Company is hereinafter referred to as Southern Pacific, and The Western Pacific Railroad Company is hereinafter referred to as Western Pacific.

would be increased from $10.50 to $11.50, one way, and from $18.90 to $20.70, round trip.

Applicants' coach fares were last increased pursuant to Decision No. 63671, dated May 8, 1962, in Application No. 43761 (59 Cal. PUC 591). First class fares were last increased pursuant to Decision No. 54914, dated April 30, 1957, in Applications Nos. 38056 and 38471.

Evidence in support of the application was introduced through cost analysts of the two railroads and through Southern Pacific's general passenger agent. Representatives of the Commission's Transportation Division staff assisted in the development of the record through cross-examination of applicants' witnesses. No one opposed the granting of the application.

The proposed fare increases are patterned after the 10 percent increase in interstate passenger fares placed in effect December 15, 1962, under authority from the Interstate Commerce Commission.[2/] Generally, the increases sought herein would place California intrastate coach and first class fares on the same levels per mile as the applicants' corresponding interstate fares. The special coach fares between San Francisco-Oakland-Sacramento and Los Angeles would still fall below the rate per mile of the interstate coach fares.

The cost analysts testified concerning studies which they had made purporting to show the financial results of their companies' operations in the transportation of intrastate passengers between points in California. The basic period selected for these studies was the calendar year 1962. The operating results are summarized in the following table:

2/ The record shows that corresponding increases have also been made in the intrastate fares within all other states in which passenger operations are conducted by applicants.

Revenues, Expenses and Net Operating Loss
For California Intrastate Passenger Operations
Year 1962

	Southern Pacific	Western Pacific
Revenues	$12,079,435	$ 62,837
Expenses	17,487,989	151,709
Net Loss	5,408,554	88,872

In arriving at the results set forth above the witnesses found it necessary to segregate California intrastate passenger revenues and expenses from interstate passenger revenues and expenses, and to allocate certain joint expenses, and to a small extent revenues, between freight and passenger services. The allocations were made on various bases, depending upon the circumstances. The witnesses indicated that the same methods were followed as in prior rail passenger fare increase proceedings since 1956, and as used in the most recent fare increase proceeding, Application No. 43761.

No estimates of operating results were developed showing current expenses and the revenues under the proposed fares. However, the witness for Southern Pacific estimated that the fare increase would produce $200,000 additional revenue annually for that company, and the witness for Western Pacific concluded that the fare increase would result in additional revenues of $4,600 annually for his company. It was the opinion of the traffic witness that the fare increase, if granted, would not result in any substantial diversion of traffic. This opinion was based on an analysis of the more recent fare increases which, the witness stated, showed no measurable reduction in patronage due to the fare changes.

The cross-examination by the Commission's staff was directed primarily to the allocation methods employed by applicants' cost analysts. The staff pointed out several areas where, if different allocation methods were employed, more favorable operating results would obtain. The position of applicants is that the allocation methods were originally worked out through joint efforts of the applicants' and the Commission's staff, and such methods have been used in several prior proceedings. Applicants contend that if other methods are to be used they should be developed in further joint discussions. No evidence was offered by the staff as to the over-all operating results under the allocation methods it deems to be proper. In prior proceedings we have pointed out weaknesses which are manifest in applicants' allocation methods. However, because adjustments in the passenger revenues and expenses based upon more appropriate allocation methods would not have shown the passenger operations to be conducted at a profit, we did not deem it necessary to have developed in detail the appropriate bases for the questioned allocations. The situation in this proceeding is that after making all of the adjustments in allocations apparent from the staff cross-examination, operations under both the present fares and the proposed fares would continue to be performed at a loss.

Southern Pacific and The Atchison, Topeka and Santa Fe Railway Company (Santa Fe) have an optional routing agreement in connection with service between San Francisco-Oakland and Los Angeles over routes through the San Joaquin Valley. Under this agreement, tickets between common points sold by either railroad are honored on the other railroad. Santa Fe is not an applicant in this proceeding, and the Commission's records show that no application has been filed by it seeking increases comparable to those sought in the instant application. If this application is granted, Santa Fe's fares between San Francisco-Oakland and Los Angeles would be lower than those of Southern Pacific for comparable service. Passengers could purchase a lower-priced Santa Fe ticket which would be honored on Southern Pacific's trains operating through the San Joaquin Valley. The record shows, however, that no loss in revenue to Southern Pacific would result, as the agreement calls for Santa Fe to pay to Southern Pacific the latter's local fare when a Santa Fe ticket is used for transportation via Southern Pacific.

Upon consideration of all the facts and circumstances of record, we find as follows:

1. Intrastate passenger operations of applicants reflected losses for the year 1962.

2. Additional revenues are required if applicants are to maintain the integrity of said passenger operations.

3. The prospective additional revenues under the proposed fares will be insufficient to return the costs to applicants of rendering said service.

In light of these findings, we find that the increases in fares proposed in the application are justified.

Applicants request that tariff amendments to reflect the sought increased fares be exempted from Rules 36, 37, 39(h) and 43(d) of the Commission's Tariff Circular No. 2, in order that the publication may be made in the form of a conversion table. It was explained by the traffic witness that republication of all of applicants' tariffs necessarily entails considerable work and expense which would delay placing the increased fares in effect. Authority to waive the tariff circular rules in question will be granted.

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

A. 45296 GH

<u>ORDER</u>

IT IS ORDERED that:

1. Applicants are hereby authorized to establish the increased passenger fares as proposed in Application No. 45296. 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. Applicants are authorized to depart from the provisions of Rules 36, 37, 39(h) and 43(d) of the Commission's Tariff Circular No. 2, in order to publish the increased fares in the form set forth in Exhibit 2 in this proceeding, provided that the involved tariffs are reissued within 180 days of the effective date of this order to comply with the tariff circular provisions in question.

3. The authority herein granted shall expire unless exercised within ninety 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 1st day of October, 1963.

William M. Bennett
President

Everett C. McKeage

George G. Grover

Frederick B. Holoboff
Commissioners