

Decision No. 70939

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN PACIFIC COMPANY to discontinue the operation of passenger Trains Nos. 75 and 76 between San Francisco and Los Angeles.

Application No. 48219
(Filed January 31, 1966)

Application of SOUTHERN PACIFIC COMPANY to discontinue the operation of passenger Trains Nos. 51 and 52 between Bakersfield and Los Angeles.

Application No. 48220
(Filed January 31, 1966)

In the Matter of the Petition of SANTA FE TRANSPORTATION COMPANY, a California corporation, for relief from conditions imposed by the California Public Utilities Commission.

Application No. 48356
(Filed March 29, 1966)

Investigation on the Commission's Own Motion into the Operations, Services, Rates, Rules, Facilities, Equipment, and Practices Pertaining to the Operation of Trains Nos. 75 and 76 Between San Francisco and Los Angeles and Trains Nos. 51 and 52 Between Bakersfield and Los Angeles, by SOUTHERN PACIFIC COMPANY, a corporation, Within the State of California.

Case No. 8378
(Filed March 22, 1966)

W. Harney Wilson and Herbert A. Waterman, for Southern Pacific Company, applicant in A. 48219 and 48220; respondent in C. 8378; and interested party in A. 48356.
F. G. Pfrommer and Leland E. Butler, for Santa Fe Transportation Co., applicant in A. 48356.
James L. Evans, for the State Legislative Board and Brotherhood of Locomotive Firemen and Engineers, protestant in A. 48219 and 48220; and interested party in A. 48356.
George W. Schlueter, for the Brotherhood of Locomotive Engineers and State Legislative Board; Charles E. Porter and Donovan P. Anderson, for Order of Railroad Conductors and Brakemen; Donovan P. Anderson, for Order of Railroad Conductors and Brakemen and California Legislators Committee; Richard T. Schwartz and Graham R. Mitchell, for Brotherhood of Locomotive Engineers; and William V. Ellis in propria persona, protestants in A. 48219 and 48220.

Jerry W. Bartholow, for the County of Santa Cruz; Alice L. Wilder, for San Lorenzo Valley Chamber of Commerce; and Edward F. Buckner, for County of Santa Barbara, protestants in A. 48219.

George W. Ballard and James E. Howe, for the Brotherhood of Railroad Trainmen AFL-CIO, protestants in A. 48219, 48220 and 48356.

McMorris M. Dow and Robert R. Laughead, for the City and County of San Francisco, protestant in A. 48219 and interested party in A. 48220.

E. A. McMillan, for Brotherhood of Railway Clerks; Jack B. Arnold, for Lancaster Chamber of Commerce; Bruce F. Bunker, for City of Tehachapi; and Louis C. Mobley, for Howard W. Taggart, for Brotherhood of Railway Clerks, protestants in A. 48220.

Robert W. Russell by Manuel Kroman, for City of Los Angeles, interested party in A. 48219, 48220 and 48356.

William C. Bricca and Eric A. Mohr, for the Commission staff.

O P I N I O N

By Application No. 48219 Southern Pacific Company (SP) requests authority to discontinue the "Lark" Trains Nos. 75 and 76 between San Francisco and Los Angeles.

By Application No. 48220 SP requests authority to discontinue the San Joaquin "Daylight" Trains Nos. 51 and 52 between Bakersfield and Los Angeles.

By Application No. 48356 Santa Fe Transportation Company (Santa Fe) requests authority to discontinue an alternate bus service for the San Joaquin Daylight Trains Nos. 51 and 52 between Bakersfield and Los Angeles.

On March 22, 1966, the Commission instituted Case No. 8378, which is a Commission investigation into the operations of Trains Nos. 75 and 76 between San Francisco and Los Angeles and Trains Nos. 51 and 52 between Bakersfield and Los Angeles to determine the reasonableness or adequacy thereof.

Public hearings were held before Commissioner Mitchell and Examiner Daly at San Francisco, Santa Barbara, Los Angeles and Bakersfield with the matters being submitted following oral argument on May 11, 1966.

Notice of hearing was mailed to all interested parties, including governmental agencies, and also was published in newspapers of general circulation throughout the areas covered by the applications and the Commission's investigation.

APPLICATION NO. 48219 AND CASE NO. 8378
LARK TRAINS NOS. 75 AND 76

SP Lark Trains Nos. 75 and 76 provide overnight service between San Francisco and Los Angeles and intermediate points along the Coast Route. The trains have a 9 p.m. departure time and an arrival time of 8:30 a.m. Train No. 75 has an on-time performance of 91 percent and Train No. 76, which operates southbound, has an on-time performance of 80 percent. Arrivals within 15 minutes of scheduled arrival is considered on time. The Lark has been operating since 1910. By 1949 it was considered one of the finest overnight trains in the United States. Until 1956 its average consist was two head-end cars, 13 to 15 sleepers and a triple unit diner lounge. A separate section was operated between Oakland and San Jose. In 1949 a radio-telephone was installed for passenger use and remained until 1956.

By Decision No. 58111 in Application No. 38039, the Commission authorized the discontinuance of Starlight overnight coach Trains Nos. 94 and 95, which were consolidated with the Lark on July 15, 1957. This increased the consist by one head-end car and several coaches. By 1959 the average number of pullman cars was reduced from 10 to 7. On May 2, 1960, pursuant to Decision No. 59928 in Application No. 41544, The Oakland-San Jose portion of the Lark

was discontinued and a connecting bus service between San Francisco and Oakland was provided. At the present time the consist of the Lark is two head-end cars, two coaches (one articulated unit), three pullman cars, one coffee-shop car and one lounge car. The average consist is nine cars except for Saturday when eight are used. During the summer months additional cars are used as needed.

SOUTHERN PACIFIC'S PRESENTATION A. 48219

SP contends that on a full cost basis it has lost approximately \$8-1/2 million on the Lark since 1953 and on an out-of-pocket loss basis, approximately \$1.2 million for the year 1965 (Exhibit No. 1). According to SP these losses have been experienced despite a growing population and an extensive advertising campaign. The average daily count of revenue passengers has declined from 572 on Train No. 75 and 517 on Train No. 76 in 1952 to 95 on Train No. 75, and 92 on Train No. 76 in 1965 (Exhibit No. 2). This decrease has been experienced despite the fact that the population of cities along the route of the Lark, including San Francisco and Los Angeles, has increased by 23 percent (Exhibit No. 6).

The Lark schedule and service were primarily designed to attract the businessman. Although intermediate service is provided, the traffic basically moves between San Francisco and Los Angeles. The daily average of revenue passengers on and off Trains Nos. 75 and 76 for the period June 1, 1965 to February 28, 1966, inclusive, is as follows (Exhibit 14):

Station Train No. 75 (First Class)	On	Off
Los Angeles	22	-
Glendale	2	-
Oxnard	#	-
Ventura	#	-
Santa Barbara	2	#
Surf	#	-
Guadalupe	-	#
San Luis Obispo	#	#
Paso Robles	#	#
Salinas	-	1
Watsonville Jct.	-	#
San Jose	-	3
Palo Alto	-	2
Burlingame	#	1
San Francisco	-	19
Total	26	26

Station Train No. 76 (First Class)	On	Off
San Francisco	19	-
Burlingame	1	#
Redwood City	#	#
Palo Alto	2	#
San Jose	1	#
Watsonville Jct.	#	#
Castroville	#	-
Salinas	1	#
Paso Robles	#	-
San Luis Obispo	#	#
Guadalupe	#	-
Surf	#	-
Santa Barbara	#	1
Ventura	#	#
Oxnard	#	#
Glendale	-	2
Los Angeles	-	21
Total	24	24

Station Train No. 75 (Coach)	On	Off
Los Angeles	54	-
Glendale	5	#
Oxnard	1	1
Ventura	1	1
Santa Barbara	3	4
Surf	#	#
Guadalupe	#	#
San Luis Obispo	1	1
Paso Robles	#	#
Salinas	#	2
Watsonville Jct.	1	1
San Jose	2	8
Palo Alto	2	3
Redwood City	-	#
Burlingame	2	1
San Francisco	-	50
Total	72	72

Station Train No. 76 (Coach)	On	Off
San Francisco	50	-
Burlingame	2	1
San Carlos	#	-
Redwood City	#	#
Palo Alto	4	4
Santa Clara	#	-
San Jose	7	3
Watsonville Jct.	1	1
Castroville	#	-
Salinas	2	1
Paso Robles	#	#
San Luis Obispo	1	1
Guadalupe	#	#
Surf	#	#
Santa Barbara	2	4
Ventura	1	1
Oxnard	1	1
Glendale	#	3
Los Angeles	-	51
Total	71	71

Less than 1 per day.

At one time the Lark was used rather extensively for military group movements but since 1954 the military has been using other means.

According to the Assistant Passenger Traffic Manager for SP the Lark has been deserted in favor of the airplane. He testified that in addition to cheaper fares (\$11.43 - \$13.50 air coach; Lark, first class, \$33.31 one way) and numerous schedules, air travel permits many businessmen to complete their business in one day and avoid the necessity of spending two nights away from their homes and families.

In support of its contention that the traveling public has been diverted from rail transportation between San Francisco and Los Angeles, SP introduced the testimony of Ely M. Brandes, Ph.D., a senior economist with the Stanford Research Institute. According to Dr. Brandes the impact of the family car has diverted much of the patronage from the Lark trains, the effect of bus and air competition has been secondary, but all have worked heavily against the trains. He pointed out that the public which made approximately 95 percent of intercity trips by train in the late 19th century, now makes approximately 90 percent by automobile and barely 2 percent by railroad. He indicated that Greyhound provides 42 round trips daily between Los Angeles and San Francisco or Oakland at a one-way fare of \$9.65 in about nine hours and 45 minutes. An air traveler, he stated, may choose between 95 flights at about the same fare as coach on the Lark. The density of air traffic between Los Angeles and the Bay Area is the heaviest in the world. According to a study prepared by Dr. Brandes, the following is a summary of cost of service comparisons for bus, air and hypothetical train (Exhibit 35).

Bus	\$9.10	Rail: Sleeper	\$25.13
Air	9.89	Coach	19.31

SP's COSTS OF OPERATING LARK TRAINS

Based on fully distributed costs SP claims to have experienced a systemwide loss of \$16,070,777 from passenger operations for the year 1965 (Exhibit 39). It claims a net operating loss of \$7,316,441 from passenger operations within the State of California for the year 1964 (Exhibit 40). It also claims a net loss of \$11,015,906 from freight operations within the State of California for the year 1964.

Based upon a systemwide unit cost method, SP submitted the revenues and expenses of the Lark trains for the year 1965 and as estimated for the year 1966 (Exhibit 42). The study is primarily predicated upon service units and related unit costs. Certain expenses, such as wages and fuel, can be identified directly with particular trains. To these directly associated items of expense are added costs concerning expenses which, though they cannot be related to a particular train, are, according to SP, legitimate charges that must be apportioned thereto. The service units used by SP are gross ton miles, locomotive unit miles, yard engine hours, train miles, and car miles. In developing unit costs, accounts are separated into variable costs and fixed costs. Only the variable costs are assigned to the service units.

REVENUES AND EXPENSES
OF TRAINS 75-76

Line No.	<u>Description</u>	Actual for Year 1965	Estimated for Year 1966
<u>Revenues</u>			
1.	Passenger	\$ 759,500	\$ 675,000
2.	Mail*	517,200	517,600
3.	Express	-	-
4.	Other Transportation	4,700	4,400
5.	Dining and Buffet	90,900	80,000
6.	Total Revenues	<u>\$1,372,300</u>	<u>\$1,277,000</u>
<u>Expenses</u>			
7.	Wages-Train & Enginemen	\$ 408,100	\$ 413,800
8.	Servicing-Diesel Locomotives	62,200	61,100
9.	Servicing-Passenger Cars	155,000	131,800
10.	Repair-Diesel Locomotives	233,400	229,400
11.	Repair-Passenger Cars	303,500	250,900
12.	Switching	74,500	54,200
13.	Casualties	22,800	20,700
14.	Maintenance of Way & Structures	130,500	118,600
15.	Dining & Buffet Service	162,200	139,200
16.	Station Employees	153,700	159,100
17.	Traffic Employees	26,800	27,300
18.	Non-operating Employees' Wage Increase Lines 8-14	10,600	20,400
19.	Health and Welfare for Lines 7-18	45,000	44,400
20.	Payroll Taxes for Lines 7-18	104,300	109,200
21.	Train Fuel	98,900	89,900
22.	Depreciation-Diesel Locomotives	105,000	103,200
23.	Depreciation Passenger Cars	53,800	44,300
24.	Interest-Diesel Locomotives	12,500	12,500
25.	Interest-Passenger Cars	22,100	35,000
26.	Passenger Bus and Baggage Truck Service	8,500	7,600
27.	Pullman Company	170,300	159,900
28.	Joint Facilities (LAUPT)	177,800	155,000
29.	Subtotal Expenses on Lines 7-28	<u>\$2,541,500</u>	<u>\$2,387,500</u>
30.	Net Profit or (Loss) before Expenses on Lines 31-38	(\$1,169,200)	(\$1,110,500)
31.	Station Supplies & Expenses	3,500	3,200
32.	All Other Transportation	13,300	12,500
33.	All Other Maintenance of Equipment	18,500	16,500
34.	General	23,700	22,100
35.	Haul of Company Material	21,500	20,000
36.	Non-operating Employees' Wage Increase	900	1,700
37.	Health and Welfare for Lines 31-36	2,100	2,100
38.	Payroll Taxes for Lines 31-36	4,900	5,100
39.	Subtotal Expenses on Lines 31-38	<u>\$ 88,400</u>	<u>\$ 83,200</u>
40.	Net Profit or (Loss)	(\$1,257,600)	(\$1,193,700)

* If Lark trains are discontinued the mail will be handled by Pacific Motor Trucking Company, a subsidiary of SP.

Advertising

SP contends that the decline of rail passengers cannot be reversed through advertising. As stated by Dr. Brandes, "The traveling public is fully informed as to the modes of travel available to it and their cost. And I have further assumed that travelers are making rational economic choices in this market sector; that they are seeking, in fact, the most value for their dollar. The evidence presented clearly shows that this assumption appears to be correct--that travelers are choosing travel means which either are lower in cost than rail, or which give them a higher quality of service than railroads are capable of delivering, or both. So even if we grant, for the moment, the argument that Southern Pacific and other railroads do not spend sufficient funds to promote and advertise their rail passenger service, the following question can surely be raised: Precisely what effect can one expect from such increased advertisement? Since the values offered by the competing modes of travel are well known to the public, additional information and advertising about rail travel would simply force the traveling public to choose among these modes, on some rational bases. But that is exactly what they seem to be doing already. It is inconceivable that any amount of advertising or promotion can eliminate the real cost and value advantage which automobile and air travel have in this corridor over rail transportation."

During the years 1959 through 1965 Southern Pacific spent the following amounts on advertising the Lark:

<u>Year</u>	<u>Type of Advertising</u>	<u>Cost</u>	<u>Total</u>
1959	Newspaper Magazine	\$18,899.47 12,929.50	\$31,828.97
1960	Newspaper Magazine	22,243.07 12,696.31	34,939.38
1961	Newspaper Magazine	17,505.41 8,639.43	26,144.84
1962	Newspaper Magazine	3,127.62 6,226.42	9,354.04
1963	Newspaper Magazine	35.99 1,399.02	1,435.01
1964	Newspaper Magazine	None 836.70	836.70
1965	Newspaper Magazine	None None	
Seven Year Grand Total			<u>\$104,538.94</u>

According to the advertising manager of SP the company spent \$9,980,000 on advertising system-wide passenger service during the period 1949 to 1965. From 1940 to 1963, SP was awarded approximately 30 advertising awards (Exhibit 81). He admitted that in the recent past nothing has been spent on advertising the Lark because, in his opinion, it is foolish to try to sell a product to the public when the product either is not selling or cannot compete.

According to the witness, the Lark service is basically designed for businessmen and with the decline of patronage he concluded that advertising was not attracting that type of passenger. He was of the opinion that no amount of advertising could make people use a service they do not wish to use or have no need for. SP therefore takes the position that continued advertising of the Lark would be a senseless waste of company money.

STAFF'S PRESENTATION A. 48219 and C. 8378

A Commission engineer inspected the equipment used on the Lark on April 1, 1966 and found it to be in acceptable condition. The age of the cars ranged from fifteen to twenty-five years, but they indicated recent shopping and general refurbishing. This is consistent with the testimony of the Assistant Traffic Manager for Southern Pacific, who testified that the cars are reconditioned every four years. According to the staff witness the cleanliness of the cars inspected, despite the fact that they had not been cleaned since arrival from Los Angeles, was generally good. Each unit of the articulated chair car has fifty seats with seat spacing of thirty-nine inches, which has been approved by this Commission. In the opinion of the staff engineer, however, the spacing is inadequate for comfort on overnight trips and leg rests should be provided.

A traffic check for the period June 1965 to February 1966, inclusive, indicated the daily average number of passengers transported on Trains Nos. 75 and 76 (Exhibit 55).

<u>Month</u>	<u>Pullman</u>		<u>Chair</u>		<u>Total</u>	
	<u>No. 75</u>	<u>No. 76</u>	<u>No. 75</u>	<u>No. 76</u>	<u>No. 75</u>	<u>No. 76</u>
June	27	23	72	69	99	92
July	33	25	103	109	136	134
August	29	23	104	104	133	127
September	24	22	71	68	95	90
October	22	20	47	49	69	69
November	28	26	62	62	90	88
December	26	33	81	79	107	112
January	23	20	59	54	82	74
February	19	23	53	45	72	68
Average (273 Days)	26	24	72	71	98	95

The staff takes the position that SP has taken a number of steps in recent years which have had the effect of making rail travel less convenient and attractive and which have discouraged patronage. Specifically the staff lists the following, some of which affect all company passenger trains:

1. Elimination of Oakland-San Jose sections of the Lark and Coast Daylight trains.

2. Curtailment of Shasta Daylight Trains Nos. 9 and 10 from daily to tri-weekly service in the off-peak season and finally the curtailment to summer service only. Southern Pacific, in Finance Docket No. 23756 before the Interstate Commerce Commission, sought to discontinue Trains Nos. 9 and 10 completely.

3.. SP initiated a reduction of seat spacing in chair cars from 42 to 35 inches. The Commission instituted an investigation, Case No. 6855, and the staff recommended original seat spacing of 42 inches. Decision No. 65833 authorized SP to convert to no less than 39-inch spacing. The staff is of the opinion that 39-inch spacing for trips of 300 to 400 miles is uncomfortable and inadequate.

4. Lack of promotional passenger advertising in recent years.

5. Fare increases with reduction of service. Removal of "Special Coach" fares and removal of seat reservations, as allowed by the Interstate Commerce Commission, results in increased fares without providing seat reservation service.

6. Sale of airline tickets by SP Company agents.

7. Lack of timetables and promotional material in company ticket office available to the public as well as the lack of distribution of new timetables to tour or travel agents or Chambers of Commerce.

8. Lack of convenient connecting service or through service via Coast or San Joaquin Routes for eastern trains.

9. Elimination of central downtown ticket offices, particularly in downtown areas of San Francisco and Los Angeles.

10. Elimination of newspapers in lounge car on the Lark, effective January 1, 1966.

11. SP does not provide free "Enterprise" telephone exchange service to its ticket offices.

12. SP recently discontinued allowance of commissions to travel agents for the sale of rail passenger tickets.

13. SP for all practical purposes has eliminated passenger solicitation.

According to the staff engineer these practices will eventually, if allowed to continue, lead to the complete elimination of rail-passenger service on the SP system. He pointed out that other railroads operating in the United States maintain a positive program of advertising and promotional service in order to compete with other forms of transportation. According to the witness, some of these forms of promotion consist of family plan fares, escorted tours, credit card service, "pay later" plans, reduced meal service plans, in-train movies and memberships in such organizations as Rail Travel Promotion Agency.

The difference between a positive approach and a negative approach, the staff believes, is best illustrated by the experiences of the four major western railroads from 1960 to 1964. Based on revenue passenger miles, The Atchison, Topeka and Santa Fe Railway Company had an increase of 1 percent, Western Pacific Railroad Company had a decrease of 4 percent, Union Pacific Railroad Company had a decrease of 14 percent and Southern Pacific Company had a decrease of 28 percent (Exhibit 88).

With respect to advertising, the staff engineer was of the opinion that SP recently used the media of advertising to discourage rather than encourage passenger rail travel, while on the other hand, it has used advertising and promotion to improve and attract rail freight traffic. Specifically the witness referred to an advertisement that appeared in the San Francisco Chronicle on Tuesday, February 1, 1966 (Appendix A Exhibit 55), and another advertisement

that appeared in Sunset Magazine, October 1965 (Appendix B Exhibit 55). The first is entitled THE LARK: WHAT FUTURE IS THERE FOR A BIRD THAT CAN'T FLY and according to SP was not an advertisement but a public announcement of its intention to seek authority to discontinue the Lark trains. The other shows a single passenger on a passenger car and is entitled: THE VANISHING AMERICAN. These are contrasted with an advertisement by C&O-B&O railroads, which depicts a glass-topped stratadome car and private sleeping room accommodations (Appendix D Exhibit 55). This advertisement sets forth newly introduced passenger service improvements such as movies-on-the-train; a vacation-time service that puts travelers and their automobiles on the same passenger train; reduced fares for passengers who ride on days when travel is light; inexpensive dining car meals; slumber coach service, which affords private room sleeping accommodations at coach fare, plus a small space charge; acceptance of credit cards; and new easy-to-read timetables.

The staff engineer conceded that air travel between Los Angeles and San Francisco has grown tremendously, but this, he testified, has been the result of the airlines vigorously promoting that mode of travel through decreased fares, improved service and improved equipment. He pointed out that the airlines do not serve all of the intermediate points served by the Lark and the few intermediate points that are served by air are not provided coach class, modern jet equipment or reduced fares.

STAFF'S COST OF OPERATING LARK TRAINS

The staff presented an engineering-economic study (Exhibit 55). Expenses were determined on an out-of-pocket basis and were defined as those expenses that would be saved if the operations did not take place. Most of the expenses were developed by applying unit costs which were determined by spreading the variable portions of

system expenses over system service units; system expenses and system service units were based upon company reports.

ESTIMATED RESULTS OF OPERATIONS
ON OUT-OF-POCKET BASIS
TRAINS 75 and 76

<u>Line No.</u>	<u>Reference</u>	<u>Item</u>	<u>Amount</u>
		<u>Revenues</u>	
1		Passenger	\$ 759,500
2		Mail	517,200
3		Express	-
4		Baggage	4,700
5		Dining-Buffer	90,900
6	L. 1 to 5	Total Revenue	\$1,372,300
7	Table III	<u>Total-Out-of-Pocket Cost</u>	2,138,200
8	L. 6 Less L.7	<u>Net before adjustments and taxes</u>	\$(765,900)
		<u>Adjustments</u>	
9		Freight Service performed for benefit of passenger service-haul of company materials	\$ 12,100
10		Passenger Service performed for benefit of freight service transportation of pass riders	\$ (187,600)
11		Feeder Value	\$ (21,100)
12	L.8 less L.9 to 11	Net before taxes	\$ (569,300)
13	L.12 x 50%	Income tax credit	\$ (284,700)
14	L.12 less L.13	<u>Net after adjustments and taxes.</u>	\$ (284,600)

(Red Figure)

The main points of difference between the staff's cost analyses and that of SP relate to constructive revenue, feeder revenue, the allocation of locomotive repair and depreciation, and income tax credits. With respect to passengers traveling on passes the staff provided a credit to the passenger train expenses upon the premise that such travel constitutes a benefit primarily to the freight operations of the company. If limited to pass riders riding on company business, SP contends that the amount would be \$36,536 (Exhibit 75).

On feeder revenue the staff estimated the amount of revenue that would be lost to connecting trains of SP if the trains herein considered were discontinued. In determining feeder revenue the staff relied upon traffic checks and a formula used by the Interstate Commerce Commission, whereas SP uses a judgment figure based upon known conditions of the trains involved for the amount of traffic considered and the same ICC formula. With respect to locomotive repairs, Southern Pacific uses recorded figures in developing unit cost and the staff reduced those figures by twenty-five percent, because the staff in prior studies determined that SP's unit cost for repair consistently is higher than other western railroads. The staff did not deny that the amounts shown by SP were actually spent. On depreciation of locomotives, the staff employed different unit costs and determined depreciation on the basis of a 25-year life as against a 16-year life used by SP notwithstanding the fact that for accounting purposes the company uses a 16-year life basis with a 4 percent salvage, pursuant to the approval of the Interstate Commerce Commission.

In determining the net loss applicable to the operation of the Lark, the staff decreased the total loss by the amount that SP would receive as an income tax credit. However, the staff predicated the tax credit on the basis of a fifty percent tax rate, whereas SP pays on the basis of a thirty-eight percent tax rate. In any event, SP contends that tax credits can only be determined on a systemwide basis and cannot be made applicable to an out-of-pocket study relating only to a segment of an operation. It pointed out that the theory of tax credits has been rejected by the Interstate Commerce Commission.

FINANCIAL CONDITION OF SOUTHERN PACIFIC

The staff also introduced a study reflecting the financial position and operating results of SP. The data are based on an examination of the accounting records of SP for the calendar year 1964 and 1965 (Exhibit 55).

The following tabulation summarizes the financial condition at the balance sheet dates indicated:

<u>Assets</u>	<u>Dec. 31, 1964</u>	<u>Dec. 31, 1965</u>
Current Assets	\$ 268,801,657	\$ 249,648,196
Operating Property	2,305,524,852	2,342,652,147
Misc. Physical Property	86,163,260	126,682,877
Accrued Deprec. & Amortization	(525,491,310)	(540,529,895)
Net Properties	1,866,196,802	1,920,805,129
Investments-Net	197,616,231	169,513,095
Other Assets	65,269,487	34,253,276
Total	<u>\$2,397,884,177</u>	<u>\$2,382,219,696</u>
 <u>Liabilities and Shareholders Equity</u>		
Current Liabilities	\$ 194,198,930	\$ 209,443,738
Funded Debt and Equipment Obligations	702,094,959	691,910,595
Payable to Affiliated Companies	53,429,579	23,074,984
Reserves and Other Credits	<u>54,326,918</u>	<u>47,240,150</u>
Total Liabilities	1,004,050,386	971,669,467
Total Shareholders Equity	<u>1,393,833,791</u>	<u>1,410,550,229</u>
Total	<u>\$2,397,884,177</u>	<u>\$2,382,219,696</u>

(Red Figure)

With the merger of Pacific Electric Railway Company on August 13, 1965 there was a charge in the amount of \$13,388,382 to retained income of SP. As of December 31, SP had retained income in the amount of \$985,675,188.

The results of operations of SP for the calendar years 1964 and 1965 are summarized as follows:

	<u>Calendar Year</u>	
	<u>1964</u>	<u>1965</u>
Railway Operating Revenues	\$728,577,557	\$786,295,827
Railway Operating Expenses	582,286,898	611,710,573
Net Revenue from Railway		
Operations	146,290,659	174,585,254
Railway Tax Accruals	63,546,948	73,048,406
Railway Operating Income	82,743,711	101,536,848
Net Rents	22,439,182	32,889,515
Net Railway Operating Income	60,304,529	68,647,333
Other Income	33,677,415	35,673,764
Other Deductions	2,640,087	5,871,402
Income Available for		
Fixed Charges	91,341,857	98,449,695
Fixed Charges	27,443,465	28,772,522
Net Income	63,898,392	69,677,173

An analysis of Account No. 353 (advertising) for freight and passenger for the years 1962 through 1965 is as follows:

<u>Advertising Expense</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Passenger	\$187,580	\$100,307	\$ 79,871	\$ 50,362
Freight	352,190	419,393	440,970	453,299
Total	\$539,770	\$519,700	\$520,841	\$503,661

COST OF MONEY

The staff prepared and introduced in evidence, over the objection of SP, a report on cost of money and selected financial data (Exhibit 56). During oral argument SP renewed its motion to strike Exhibit 56 and the testimony of the staff witness through whom it was introduced. The motion to strike is denied.

Exhibit 56 is a consolidated report relating to SP's entire operations both regulated and nonregulated. The report shows various comparisons of 17 railroads with SP during an

eleven-year period from 1954 through 1964. The 11-year averages are as follows:

	<u>17 Railroads</u>	<u>Southern Pacific</u>
Return on Total Capitalization	4.24%	5.03%
Common Equity Ratio	61.55%	62.6%
Return on Common Equity	4.32%	5.64%
Ratio of Operating Expense to Operating Revenues	90.8%	90.69%
Surplus as a Percentage of Total Capitalization	42.41%	45.12%
Current Ratios	1.76	1.77

The cost of money to Southern Pacific as of December 31, 1965 is as follows:

	<u>Capital Ratios</u>	<u>Cost Factor</u>	<u>Weighted Cost Total</u>
Long-Term Debt	31.99%	4.09	1.31%
Common Stock	68.01%	5.92	4.03%
Totals	<u>100.00%</u>		<u>5.34%</u>

STAFF RECOMMENDATION ON LARK

It is the staff's position that public convenience and necessity require continued overnight service between Los Angeles and San Francisco.

PUBLIC WITNESS TESTIMONY

A total of 48 witnesses testified. Twenty-three were opposed and 18 favored discontinuance. The testimony of 8 witnesses was stipulated. Four were in favor of and four were opposed to discontinuance.

Those who opposed the application included members of the public who have made use of the Lark in extent varying from occasional to frequent. They included two State senators, two college professors, three city and county attorneys representing the Cities of Santa Barbara, San Luis Obispo, Santa Maria and the Counties of Santa Cruz and Santa Barbara. Also included were a

representative of the University of California at Santa Barbara, two students, a conductor for the SP and an advertising consultant.

In brief, their testimony was to the effect that SP is making every effort to discourage use of the Lark trains. Several witnesses testified that SP has made it difficult to make reservations by employing a waiting list, and by closing the reservation desk at 7 p.m. The record discloses that a waiting list is used when the present consist is filled. According to Exhibit 70 introduced by SP, there were nine instances during a 3-month period when the company failed to provide pullman service and ten instances when it failed to provide coach space. However, there are no means to determine the number of individuals who chose another form of transportation rather than go on a waiting list. In any event, this could indicate a failure on the part of SP to comply with the provisions of Decision No. 55202, which authorized the consolidation of the Lark and Starlight passenger trains subject to the condition that SP provide sleeping accommodations on the consolidated trains for all intending sleeper passengers who apply at least five hours prior to departure time.

Several complained about the lack of porters. A few expressed their fear of flying and in using the freeways; they prefer the safety and convenience of passenger trains. The SP conductor, who is a conductor of one of the coast Daylight trains, and was formerly a conductor of southbound Lark Train No. 75, testified that the company had been giving preference to freight trains in a congested track area between Burbank and the Los Angeles depot. In response SP introduced the testimony of its Assistant Division Superintendent. He testified that there had been a period up to a year ago when freight cars were being set

out at a plant of the General Motors Company against order. The effect of this was to delay the southbound Lark train. According to the witness, when it was called to his attention, the situation was corrected and the individuals responsible were disciplined.

Those testifying in support of the application primarily represented shippers using the SP, such as Montgomery Ward & Co., R. J. Reynolds, Fibreboard Paper Products, Procter & Gamble Corp., Southern California Edison and Coast Carloading Company. They expressed a unanimous fear that if the SP freight operations continue to subsidize its passenger operations this could ultimately have an adverse effect upon freight rates, although they admitted they have experienced no freight rate increase in the past five years and several admitted to a decrease in rates. They also testified to the effect that as a matter of time and economics their respective companies required their employees to fly when on company business rather than use rail transportation. All of them favor the granting of the application because they are of the opinion that as a matter of good business practice it is prudent to discontinue a losing segment of one's operations.

A professor from the University of California at Los Angeles also testified in support of the application. It was his opinion, as an expert in the field of transportation, that all rail passenger service within the United States should be discontinued at the discretion of management. He was also of the opinion that competition alone would induce better transportation service for persons and property and that governmental regulation served no public purpose and should be eliminated.

APPLICATION NO. 48220 and CASE NO. 8378

By this application SP requests authority to discontinue the San Joaquin Daylight Trains Nos. 51 and 52 between Bakersfield and Los Angeles. At the present time Trains Nos. 51 and 52 provide daily coach rail service between San Francisco, Oakland and Los Angeles. They are linked with the Sacramento Daylight Trains Nos. 53 and 54 at Lathrop. Passengers using these trains have the option of remaining on the trains between Bakersfield and Los Angeles or using a connecting bus service operated by Santa Fe Transportation Company.

Pursuant to Decision No. 68686, dated March 12, 1965, in Application No. 46660, SP was authorized to discontinue its Owl Trains Nos. 57 and 58 and The Atchison, Topeka and Santa Fe Railway Company was authorized to discontinue its Golden Gate Trains Nos. 60 and 63. The authority was conditioned upon SP operating a more efficient and satisfactory service between San Francisco and Bakersfield on Trains Nos. 51 and 52 and upon Santa Fe providing an optional bus service between Bakersfield and Los Angeles for San Joaquin Daylight passengers who did not wish to take the longer, more circuitous rail route between said points.

SOUTHERN PACIFIC COMPANY'S
PRESENTATION ON A. 48220

SP contends that passenger rail service between Bakersfield and Los Angeles serves no useful purpose; however, it admits that the San Joaquin Daylight does serve a purpose north of Bakersfield. The operation south of Bakersfield, it asserts, is being operated at a loss and interferes with the operation of freight trains along the heavily congested, jointly operated

mountainous rail route in the vicinity of Tehachapi. The line between Bakersfield and Mojave consists of 32 miles of single track and 35 miles of double track. The joint track arrangement with The Atchison, Topeka and Santa Fe railroad accommodates approximately 50 trains a day. The estimated cost to freight trains of "meets" and "passes" with Trains Nos. 51 and 52 is \$39,900 annually (Exhibit 34).

The following is the existing scheduled service provided by Trains Nos. 51 and 52 with connecting bus service (Exhibit 3):

SOUTHBOUND
(Pacific Standard Time)

	Southern Pacific		Santa Fe Bus via Hollywood	Pasadena
	San Joaquin Daylight Train No. 52	Sacramento Daylight Trains Nos. 54 and 52		
LV San Francisco	7:15A			
LV Sacramento		7:45A		
AR Bakersfield	1:45P	1:45P		
LV Bakersfield	2:00P	2:00P	1:55P	1:55P
AR Los Angeles	7:00P	7:00P	4:35P	4:55P

NORTHBOUND
(Pacific Standard Time)

	Southern Pacific			
	San Joaquin Daylight Train No. 51	Sacramento Daylight Trains Nos. 51 and 53		
LV Los Angeles	6:25A	6:25A	8:15A	3:00A
AR Bakersfield	11:13A	11:13A	11:00A	11:00A
LV Bakersfield	11:28A	11:28A		
AR San Francisco	6:10P			
AR Sacramento		5:15P		

In conformity with Decision No. 68686 Southern Pacific reduced the overall running time of the San Joaquin Daylight trains by one hour. This was accomplished by turning the mail over to Pacific Motor Trucking Company, a subsidiary of SP and by reducing the layover time at station stops. Although Trains Nos. 51 and 52

still carry baggage the layover time at Martinez was reduced to the point where there is not sufficient time to transfer the baggage of passengers using the combined services of the Cascade and San Joaquin Daylight trains between Portland and Los Angeles. On southbound movements such baggage is trucked to San Francisco and transported on Lark Train No. 76 to Los Angeles. As a consequence, these passengers receive their baggage the day following their arrival.

The daily average number of revenue passengers on and off Trains Nos. 51 and 53 and 52 and 54 between San Francisco, Sacramento and Los Angeles and intermediate points from December 1, 1965 to February 28, 1966, inclusive, is as follows (Exhibit 13):

<u>Trains Nos. 51, 53</u>			<u>Trains Nos. 52, 54</u>		
<u>Station</u>	<u>On</u>	<u>Off</u>	<u>Station</u>	<u>On</u>	<u>Off</u>
Los Angeles	57		San Francisco	11	
Glendale	6		Oakland	11	
San Fernando	#		Berkeley	4	
Saugus	1	#	Richmond	3	#
Lancaster	5	1	Crockett	3	#
Mojave	2	#	Martinez	55	1
Tehachapi	1	2	Pittsburg	3	#
Bakersfield	22	4	Tracy	2	3
Delano	1	#	Sacramento	19	
Tulare	5	2	Lodi	3	#
Fresno	15	7	Stockton	4	1
Madera	3	1	Lathrop	1	1
Merced	4	3	Modesto	3	2
Turlock	1	2	Turlock	2	1
Modesto	3	3	Merced	3	3
Lathrop	#	#	Madera	2	1
Stockton	1	4	Fresno	8	10
Lodi	#	2	Tulare	3	5
Sacramento		18	Delano	#	1
Tracy	1	1	Bakersfield	5	37
Pittsburg	1	4	Tehachapi	2	2
Martinez	1	43	Mojave	#	1
Crockett	#	2	Lancaster	1	4
Richmond	#	5	Saugus	#	1
Berkeley	#	6	Burbank		#
Oakland		6	Glendale	#	6
San Francisco		14	Los Angeles	-	68
Total	130	130	Total	148	148

Less than one per day.

During the peak period an average of 175 passengers rode the trains between Bakersfield and Los Angeles and during the off-peak periods an average of 64 rode the trains. This results in 7 passengers for every crewman during the off-peak period and an average of 15 passengers for each crewman during peak periods (Exhibit 36).

According to SP studies 75 percent of the passengers remain on the trains between Bakersfield and Los Angeles and 25 percent elect to ride the bus. On southbound group movements checked for the period March 1, 1965 to February 28, 1966, inclusive, 53 percent used the bus and 47 percent used the train (Exhibit 14). On group movements traveling northbound during the same period 69 percent used the bus and 31 percent traveled by rail (Exhibit 15). The more prevalent use of the bus northbound is attributable to the fact that the train departs from Los Angeles at 6:25 a.m. and the bus departs at 8:00 a.m.

According to Exhibit 20 the revenue derived from the sale of tickets at the intermediate points of Tehachapi, Mojave, Saugus and Lancaster has declined from \$96,715 in 1961 to \$60,977. If the authority herein requested is granted SP contends that there will be sufficient other means of transportation to serve these intermediate points. The Orange Belt Stages has assured SP that it will honor its rail tickets between Bakersfield, Tehachapi and Mojave (Exhibit 27).

SP'S COST OF SAN JOAQUIN DAYLIGHT TRAINS

SP presented a study of revenue and expenses relating to Trains Nos. 51, 52, 53 and 54 covering the period May 1965 to April 1966, inclusive (Exhibit 31). The study was based upon nine months of actual operations and three months of projected operations. The method of preparing the study was the same as that heretofore described in the Lark application.

The results of the study are as follows:

Revenues and Expenses
Trains Nos. 51, 52, 53 and 54
Between San Francisco and Sacramento
and Los Angeles

<u>Line No.</u>	<u>Description</u>	<u>Proposed Operation</u>	<u>Present Operation</u>	<u>Increase (Decrease)</u>
<u>REVENUES</u>				
1	Passenger	\$679,500	\$1,063,300	\$(383,800)
2	Mail	-	543,900	(543,900)
3	Express	-	-	-
4	Other Transportation	3,300	17,800	(14,500)
5	Dining and Buffet	71,300	125,700	(54,400)
6	Total Revenues	<u>754,100</u>	<u>1,750,700</u>	<u>(996,600)</u>
<u>EXPENSES</u>				
7	Wage-Train and Enginemen	400,300	571,800	(171,500)
8	Servicing Diesel Locomotives to be released	-	19,500	(19,500)
9	Servicing-Passenger Cars to be released	-	17,900	(17,900)
10	Servicing-Trains	23,200	33,600	(10,400)
11	Repairs-Diesel Locomotives	187,500	330,100	(142,600)
12	Repairs-Passenger Cars	218,400	410,000	(191,600)
13	Switching	73,900	50,300	23,600
14	Casualties	14,400	23,000	(8,600)
15	Maintenance of Ways and Structures	74,700	138,600	(63,800)
16	Dining and Buffet Service	69,300	119,200	(49,900)
17	Station Employees to be released	-	27,700	(27,700)
18	Nonoperating employees' wage increase, lines 8-14	13,900	15,300	(1,400)
19	Health and Welfare for lines 7-18	29,400	46,200	(16,900)
20	Payroll Taxes for lines 7-18	72,200	109,300	(37,100)
21	Train Fuel	39,800	105,800	(66,000)
22	Depreciation-Diesel Locomotives	84,300	148,400	(64,100)
23	Depreciation Passenger Cars to be released	-	17,500	(17,500)
24	Interest, Diesel locomotives to be released	-	4,600	(4,600)
25	Interest, Passenger cars to be released	-	17,800	(17,800)
26	Passenger bus service	16,000	16,200	(200)
27	Baggage Truck Service	10,000	-	10,000
28	Joint Facilities (LAUPT)	-	156,500	(156,500)
29	Subtotal Expenses on Lines 7-28	<u>1,327,300</u>	<u>2,379,300</u>	<u>(1,052,000)</u>

Revenues and Expenses
Trains Nos. 51, 52, 53 and 54
Between San Francisco and Sacramento
and Los Angeles

<u>Line No.</u>	<u>Description</u>	<u>Proposed Operation</u>	<u>Present Operation</u>	<u>Increase (Decrease)</u>
<u>EXPENSES--Contd</u>				
30	Net Profit/Loss before Expenses on Lines 31-42	\$(573,200)	\$(628,600)	DL \$55,400
31	Servicing Diesel Locomotives to be assigned	49,900	68,400	(18,500)
32	Servicing Passenger Cars to be assigned	84,600	134,600	(50,000)
33	Station Service (other than line 17)	29,900	33,600	(3,700)
34	All Other Transportation	8,800	14,100	(5,400)
35	All Other Maintenance of Equipment	14,000	25,500	(11,400)
36	Traffic	15,000	24,900	(9,900)
37	General	17,300	28,700	(11,400)
38	Haul of Company Material	15,700	26,000	(10,300)
39	Nonoperating employees' Wage Increase Lines 30-38	5,500	5,300	200
40	Health and Welfare for Lines 30-39	6,600	9,500	(2,900)
41	Payroll Taxes for Lines 30-39	16,200	22,500	(6,300)
42	Depreciation Passenger Cars to be Assigned	39,100	55,400	(16,300)
43	Subtotal Expenses Lines 31-42	302,600	448,500	DL 145,900
44	Net Profit or Loss	(875,800)	(1,077,100)	(201,300)DL ✓

STAFF'S PRESENTATION
APPLICATION NO. 48220 AND CASE NO. 8378

According to the staff, public convenience and necessity require the operations of the San Joaquin Daylight Trains Nos. 51, 52, 53 and 54. Trains Nos. 51 and 52 provide an important direct connection at Martinez with Southern Pacific's Cascade Trains Nos. 11 and 12 for travel between Los Angeles and Portland. Any change of the all-rail passenger service between San Francisco and Los Angeles, the staff contends could have an adverse effect similar to that experienced by the Owl trains when the Shasta Daylight Trains 9 and 10 were authorized by the Interstate Commerce Commission to operate

during the summer months only. The Owl trains suffered reduced patronage to an extent that this Commission authorized complete abandonment effective April 12, 1965.

In the event the SP's request to discontinue rail service between Bakersfield and Los Angeles is granted, the staff recommends that SP be responsible for bus transportation of passengers using the San Joaquin Daylight trains and that Santa Fe be relieved of the responsibility.

Staff's Costs of Operating
San Joaquin Daylight Trains

The staff prepared a study showing the estimated operating results of Trains Nos. 51, 52, 53 and 54 for the 12 months ending April 30, 1966, for present, proposed and alternate operations (Exhibit 39). The proposed operation reflects the existing bus connection between Bakersfield and Los Angeles by Santa Fe. The passenger revenues assertedly reflect the current traffic level and estimated losses in traffic under proposed and alternate operations. However, the staff took the actual operations of the trains for November, December 1965 and January 1966 and from that determined a 33 percent increase over the same months of the prior year, and, therefore, applied the same percentage of increase to the other months considered in the study. This was done to reflect the increase in patronage resulting from the discontinuance of the Golden Gate trains. Southern Pacific contends that this was improper on two grounds; i.e., the full impact of discontinuing the Golden Gate trains had been experienced some time ago, therefore actual operations should have been used, and the increase in patronage for the month of January 1966 over January 1965 was due to the fact that the Cascade was not operating during part of January 1965 due to flood damage.

A summary of the staff's study is as follows:

ESTIMATED RESULTS OF OPERATION
ON OUT-OF-POCKET BASIS
TRAINS 51, 52, 53 & 54

<u>Line No.</u>	<u>Item</u>	<u>Present Operation</u>	<u>(A) Proposed Operation</u>	<u>(B) Alternate Operation</u>
<u>REVENUES</u>				
1	Passenger	\$1,189,000	\$ 911,800	\$1,162,400
2	Mail	543,900		-
3	Baggage	17,800	3,300	3,300
4	Dining-Buffer	125,700	71,700	71,700
5	Total Revenue	<u>\$1,876,400</u>	<u>\$ 986,800</u>	<u>\$1,237,400</u>
<u>OUT-OF-POCKET COSTS</u>				
6	Rail Cost	\$2,203,700	\$1,327,100	\$1,327,100
7	Bus Cost	-	-	195,400
8	Total Out-of-Pocket Cost	<u>2,203,700</u>	<u>1,327,100</u>	<u>1,522,500</u>
9	Net before adjustments and taxes	\$ (327,300)	\$ (340,300)	\$ (285,100)
<u>ADJUSTMENTS</u>				
10	Freight service performed for benefit of passenger service-haul of company materials.	\$ 12,900	\$ 7,000	\$ 7,000
11	Passenger service performed for benefit of freight service-transportation of pass riders.	\$ (84,900)	\$ (51,100)	\$ (51,100)
12	Feeder Value	(143,800)	(143,800)	(143,800)
13	Net before taxes	(111,500)	(152,400)	(97,200)
14	Income tax credit	(55,800)	(76,200)	(48,600)
15	Net after adjustments and taxes	\$ (55,700)	\$ (76,200)	\$ (48,600)
(A)	With bus service between Bakersfield and Los Angeles provided by Santa Fe Transportation Co. as at present.			
(B)	With bus service between Bakersfield and Los Angeles provided by Southern Pacific.			

The adjustments and differences in procedure between the staff and Southern Pacific are the same as hereinbefore discussed in the Lark application.

Public Witness Testimony

Seven public witnesses gave testimony relating to the San Joaquin Daylight trains. One testified in Los Angeles and six in Bakersfield. Six opposed the discontinuance of passenger rail service between Bakersfield and Los Angeles. The witness who spoke in support of the application represented the Palmdale Chamber of Commerce, which is in favor of SP reducing all unnecessary costs so that it might improve its freight service.

Of those who testified in opposition to the application, three were residents of Lancaster and one represented the Lancaster Chamber of Commerce. According to these witnesses discontinuance of rail service would seriously affect Antelope Valley, an expanding area that is becoming a center for elderly people, many of whom do not drive.

Among the other witnesses was a member of the Board of Supervisors of Fresno County who introduced a resolution of the Board opposing the application.

SANTA FE TRANSPORTATION COMPANY
APPLICATION NO. 48356

Santa Fe requests that it be relieved of the conditions in ordering paragraph 6(b) in Decision No. 56965 and ordering paragraph 3 of Decision No. 68636 requiring it to provide an alternate bus service between Bakersfield and Los Angeles.

By Decision No. 56965, dated July 8, 1958, in Application No. 39616, The Atchison, Topeka and Santa Fe Railway Company was authorized to discontinue the operation of its passenger Trains Nos. 61 and 6 between Bakersfield and Oakland and intermediate points subject to the condition, among others, that Santa Fe coordinate its

bus schedule so as to connect with Southern Pacific Train No. 51.

By Decision No. 68686, dated March 2, 1965, in Application No. 46660, The Atchison, Topeka and Santa Fe Railway Company was authorized to discontinue its Trains Nos. 60 and 63, and Southern Pacific was authorized to discontinue its Trains Nos. 57 and 58, upon the condition that more appropriate and satisfactory schedules covering the operations of Southern Pacific's Trains Nos. 51 and 52 be filed, providing an alternate connecting bus service by Santa Fe for passengers of Trains Nos. 51 and 52 between Bakersfield and Los Angeles.

Santa Fe contends that public convenience and necessity do not require such service, either by addition to the operation of Southern Pacific Trains Nos. 51 and 52 between Bakersfield and Los Angeles, or in place thereof.

During the period May 1965 through March 1966, Santa Fe transported 21,230 passengers between Bakersfield and Los Angeles with an average load factor of 12.6 passengers (Exhibit 3). For the period May 1965 through December 1965, inclusive, 66,727 passengers used the train and 17,380 passengers, or 20.66 percent, elected to use the bus.

Santa Fe owns and operates five buses. For the most part two buses are sufficient to accommodate the passengers who elect that means of transportation between Bakersfield and Los Angeles. However, on peak occasions, particularly during the summer months, additional buses are required. The operation at such times is unbalanced and results in dead-head trips.

Santa Fe argues that the bus operation merely duplicates that of the rail and as a consequence drains revenue from Southern Pacific without conferring any benefit.

STAFF'S CASE
APPLICATION NO. 48356 AND CASE NO. 8378

The staff's presentation in this phase of the proceedings was limited to an allegation that public convenience and necessity require continuance of the present bus-rail service.

Public Witness Testimony

No public witness testimony was offered in favor of or in opposition to this application.

STAFF RECOMMENDATIONS IN GENERAL

The staff recommended that SP be required to improve equipment and service and to promote its passenger service. It further recommended that as a means of making service more attractive to the public and to increase patronage the rail fare be lowered to \$10 for both coach and first class service between San Francisco and Los Angeles. This, the staff contends, would bring coach fares below air fares and in line with bus fares and place SP in a competitive position. If accompanied by a positive effort by SP to improve service and to actively promote the use of service, it is the opinion of the staff that it would stimulate rail travel. The staff estimates that this would result in a more favorable revenue-expense relationship for passenger trains operating between these two important metropolitan areas.

In the opinion of the staff it would require only 23 additional passengers, under the reduced fares, to achieve the same revenue-expense relationship on the Lark that is being experienced under the present fares. According to the staff, this would increase the number of pullman passengers by 7 and the coach passengers by 16. This would fill the present consist of the

pullman cars of the Lark to 60 percent of capacity and assertedly could be accomplished without any additional operating expense.

SP, on the other hand, argues that this theory is impractical because the staff fails to take into consideration the nine crewmen who require accommodations on the pullman cars; it fails to consider that on the average, 50 percent of the bedrooms, which will accommodate two, are singly occupied; and it fails to allow for a shift of coach passengers to pullman passengers because of the reduction in fare. Considering these factors, it is the position of SP that the occupancy of the three Lark pullman cars would exceed 100 percent capacity and thereby require an additional pullman car with its corresponding additional expense.

Findings, Application No. 48219 and Case No. 8378

1. Southern Pacific presently operates the Lark Trains Nos. 75 and 76 between Los Angeles and San Francisco. Said trains are on a daily, overnight basis and consist of coach and pullman cars.

2. Operations of the Lark trains are conducted at a financial loss. Considered on the basis of the staff's more favorable estimates, without trying to resolve the difference between the staff's cost analysis and that of applicant, and even considering tax credits and other adjustments SP will experience an annual loss of \$284,600.

3. The operation of the Lark merely meets minimum standards of passenger service. There has been no effort by Southern Pacific to comply with the directives of the California Public Utilities Commission, or on its own initiative, to enhance the appeal of the Lark to its riders.

4. The on-time performance of the Lark Train No. 75 moving from Los Angeles to San Francisco is satisfactory; however, Lark Train No. 76 is experiencing too much delay between Burbank and Los Angeles. An 80 percent on-time performance as determined by Southern Pacific is not satisfactory.

5. When all accommodations of the present consist are filled a waiting list is employed. In various instances SP fails to provide sufficient pullman and coach space to meet the public demand.

6. The Lark trains are experiencing considerable competition from the private automobile, buses and airlines between San Francisco and Los Angeles. The automobile provides more flexibility and is a less costly means of transporting the family. Bus transportation is inexpensive and provides more schedules. Air travel, in addition to providing more schedules and being less expensive, also is faster. However, there is a segment of the traveling public which prefers traveling by train.

7. Southern Pacific has not conducted any Lark advertising campaign since 1961. For the year 1965, Southern Pacific spent \$503,661 for freight advertising and \$50,362 for passenger advertising.

8. Southern Pacific claims a loss of \$11,015,906 from intrastate freight operations for the year 1964. This loss was determined on a fully distributed cost basis. There is nothing in this record to indicate what the results would have been on any out-of-pocket cost basis except the testimony of Dr. Brandes who was of the opinion that said operations make at least out-of-pocket costs and contribute something to overhead, a condition which he would consider as being profitable.

9. Southern Pacific is a financially solvent utility.

Conclusions, Application No. 48219 and Case No. 8378

Southern Pacific has indicated a completely negative and indifferent attitude towards its passenger operations. Rather than taking an affirmative stand it has apparently committed itself to a policy of aggravating the very conditions upon which it claims that public convenience and necessity no longer require its passenger service. Serving the public convenience does not mean merely running rolling stock with seats over the tracks. It means the service shall be kept modern and attractive so that patronage on the trains will be encouraged. Any assumption by a railroad that it can divest itself of all unprofitable operations is a false notion, and to attempt to so divest itself violates its utility obligations unless it can demonstrate that there is no substantial public need for the service in question.

This Commission hereby places Southern Pacific on notice that it will not authorize the discontinuance of any passenger trains unless it has first been clearly demonstrated that Southern Pacific has made a sincere effort to compete in the open market with all other modes of transportation. The staff has suggested various ways that this may be accomplished and cited as examples many of the promotional and advertising methods followed by more aggressive railroads.

Based upon this record it is clear that Southern Pacific has not explored all of the avenues available to it in promoting the advantage of the Lark trains, including the possibility of reducing fares.

The applicant and the staff vied with one another in mutually exclusive positions of abandonment and retention of the Lark. Neither party presented alternate proposals for the consideration of the Commission. On the record before us, then, the application for the discontinuance of the Lark must be granted or denied.

We are not unmindful that Southern Pacific, in its attempts to completely abandon passenger service, defeats its own purpose through its uncomprising and indifferent attitude. Southern Pacific should make a sincere effort to merchandise attractively and vigorously its Lark trains. The measures previously directed by the Commission, those presented by the staff in this proceeding, and innovations utilized by other railroads to stimulate passenger traffic should be adopted by Southern Pacific.

This Commission will not order Southern Pacific or any other public utility specifically how to promote and advertise its service, but this Commission will seriously consider all future discontinuance applications in the light of the efforts made along this line. Application No. 48219 should be denied.

Findings, Applications Nos. 48220
and 48356 and Case No. 8378

1. Southern Pacific is presently operating the San Joaquin Daylight Trains Nos. 51, 52, 53 and 54 between San Francisco,

Sacramento and Los Angeles. Between Bakersfield and Los Angeles Santa Fe provides an alternate bus service for the passengers of the San Joaquin trains.

2. The route between Bakersfield and Los Angeles via rail is more circuitous than that used by Santa Fe. The time in transit by rail is considerably longer than the transit time of the bus.

3. Approximately 75 percent of the rail passengers elect to use the trains between Bakersfield and Los Angeles.

4. Although the San Joaquin trains indicate a deficit, the proposed partial rail discontinuance would not materially change the deficit position because of a resulting diversion of traffic.

5. Discontinuance of the San Joaquin trains as proposed would divert at least 50 percent of the patrons who now use the service between Los Angeles and San Joaquin Valley points.

6. In the event rail service were discontinued between Bakersfield and Los Angeles, it would have an adverse effect upon the transportation requirements of Lancaster and other intermediate points.

7. Santa Fe transported a substantial number of passengers between Bakersfield and Los Angeles during the period May 1965 through March 1966.

Conclusions, Applications Nos. 48220 and 48356 and Case No. 8378

Approximately one year ago the Commission authorized Southern Pacific and The Atchison, Topeka and Santa Fe Railway Company to discontinue the Owl and Golden Gate trains on the condition that the San Joaquin Daylight trains improve their schedules and Santa Fe provide an alternate bus service. This was quickly and eagerly accepted by all parties concerned because of the substantial savings that would result from discontinuance of

the trains involved. Substantial savings have been experienced by the applicants herein during the past year, savings that far exceed the additional cost of improving the Daylight schedules and the alternate bus service.

Judging by the exhibits and record herein, it was only a short time after Decision No. 68686 went into effect that Southern Pacific first made checks and studies for the purpose of determining how best to pass the responsibility for providing service between Bakersfield and Los Angeles to The Atchison, Topeka and Santa Fe Railway Company. This seems to typify Southern Pacific's general attitude towards its public utility obligations and responsibilities.

The record clearly indicates that a great majority of the passengers prefer to remain on the train and it also indicates that there are a sufficient number of passengers using the bus to justify the continuation of this alternate means of transportation between Los Angeles and Bakersfield. The applications will therefore be denied.

O R D E R

IT IS ORDERED that:

1. Applications Nos. 48219, 48220 and 48356 are hereby denied and Case No. 8378 is hereby discontinued.
2. Southern Pacific Company shall take the necessary steps to improve the on-time performance of the Lark Train No. 76 and

shall do all things necessary to provide sufficient pullman and coach accommodations in compliance with the provisions of Decision No. 55202. A report on the steps taken shall be filed with this Commission within twenty days after the effective date of this order.

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

Dated at San Francisco, California, this
1st day of July, 1966.

Fredrick B. Hallock
President
George E. Crover
Augustan
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.