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ORIGINAL

Decision No. 71505

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN PACIFIC COMPANY to cancel certain coach fares and charges.	Application No. 48196 (Filed January 21, 1966; Amended May 24, 1966)
Investigation on the Commission's own motion into the intrastate coach services, rates, rules, tariffs and practices of Southern Pacific Company.	Case No. 8426 (Filed May 24, 1966)

Gary S. Anderson and John MacDonald Smith, for Southern Pacific Company, applicant and respondent.
Thomas M. O'Connor, McMorris M. Dow and Robert R. Laughead, for City and County of San Francisco; George W. Ballard and James E. Howe, for Brotherhood of Railroad Trainmen, AFL-CIO; protestants.
Robert D. McNutt and Charles W. Sullivan, for City of Los Angeles; William L. McCracken, for Greyhound Lines, Inc., Western Greyhound Lines Division; interested parties.
William Bricca, Charles Astrue and Kenji Tomita, for the Commission staff.

O P I N I O N

By Application No. 48196, as amended, Southern Pacific Company (SP) requests authority to cancel its present special short-limit coach fares between San Francisco-Sacramento and Los Angeles and intermediate stations via the San Joaquin Valley Route, and between the San Francisco and Los Angeles terminals via the SP Coast Route; and to discontinue advance coach seat reservation charges, applicable on certain SP trains for California intrastate travel. Applicant also seeks authority to discontinue special parlor car fares between San Francisco and Los Angeles and intermediate stations via the SP Coast "Daylight" Trains Nos. 98 and 99.

On May 24, 1966, in Case No. 8426, the Commission issued its Order Instituting Investigation into the services, fares, rules, tariffs and practices of Southern Pacific Company for the purpose of determining what are reasonable intrastate coach fares and whether the respondent should be required to continue to offer reserved seat accommodations.

Public hearings were held before Examiner Gagnon at San Francisco and Los Angeles with the matters being submitted following oral argument on June 17, 1966. Notice of hearing was mailed to interested parties, including governmental agencies, and also was published in newspapers of general circulation throughout the areas covered by the application and the Commission's investigation.

The SP currently provides four classes of coach fares within California. They are: (1) First Class, (2) Parlor Car, (3) Regular Coach and (4) Special Short-Limit Coach fares. Special short-limit fares are valid for five days one way and 18 days round trip. Regular fares are valid for six months, both one way and round trip. Reserved seat charges are added at each fare level except first class. SP requests authority to (1) discontinue its special short-limit coach fares and in lieu thereof assess the generally higher regular coach fares; (2) eliminate advance seat reservations in connection with regular coach fares and concurrently cancel the reservation seat charges which range from $0.25 to $1.00 depending upon the length of the trip; and (3) increase special parlor car fares to the level of the first class fare plus parlor car seat charge. Typical examples of the present and proposed SP fares, including fares of other competing modes of transportation, between selected representative points are set forth in the following Tables 1 and 2.

TABLE 1

COMPARISON OF PRESENT AND PROPOSED SP RAIL COACH FARES WITH FARES OF OTHER COMPETING MODES OF TRANSPORTATION BETWEEN SELECTED POINTS

Between Los Angeles And	SP Coach Fares - One Way: Present Lowest Coach Fares	Res. Seat Charge	Proposed Regular Coach Fares	Percent Change	Bus Fare	Air-line Fare
	(1)	(2)	(3)	(4)	(5)	(6)
San Francisco	$11.50	$1.00	$17.40	39.2	$9.65	$11.43
San Jose	11.50	.75	15.71	28.2	8.90	11.43
San Luis Obispo	8.25	.50	8.25	(5.7)	5.08	7.20
Santa Barbara	3.85	.50	3.85	(11.5)	2.80	6.00
Sacramento	11.50	1.00	16.60	32.8	8.97	15.15
Fresno	7.10	.50	10.30	35.5	5.56	17.60
Bakersfield	3.64	.50	6.33	52.9	3.02	10.75

(1) Present lowest coach fare, subject to additional reservation seat charge (Col. 2).

(3) Regular coach fare without seat charge.

(4) Col. 3 divided by Col. 1 plus Col. 2.

(5) Western Greyhound Lines.

(6) Lowest air fare.

( ) Negative figure.

TABLE 2

PRESENT RAIL-PARLOR CAR FARES COMPARED WITH
CURRENT FIRST CLASS FARES PLUS PARLOR CAR SEAT CHARGES

		Present Rail and Seat		Proposed Rail and Seat	
		One Way	Round Trip	One Way	Round Trip
San Francisco	- Salinas	$ 5.35	$ 9.40	$ 6.47	$11.90
	San Luis Obispo	11.15	19.85	13.05	23.80
	Santa Barbara	16.40	29.15	19.57	35.70
	Los Angeles	20.55	30.00	24.86	45.30
San Jose	- Salinas	3.40	5.80	4.25	7.90
	San Luis Obispo	9.40	16.50	10.88	19.90
	Santa Barbara	14.30	25.40	17.38	31.80
	Los Angeles	19.00	27.65	22.66	41.35
Salinas	- Santa Barbara	11.20	20.00	13.74	25.15
	Los Angeles	15.85	23.40	19.10	34.80
Santa Barbara	- Los Angeles	4.85	8.80	5.96	10.95

The special short-limit coach fares were established in 1938 to meet the reduced fares established for the newly authorized rail bus coordinated service of The Atchison, Topeka and Santa Fe Railway Company and the Santa Fe Transportation Company.[1/] At this time the railroads were transporting a major share of the traffic moving in the high density passenger corridor between San Francisco and Los Angeles. In 1951 SP inaugurated the reserved coach seat

1/ Decision No. 30790, dated April 18, 1938 (41 C.R.C. 239). The special coach fare initially established between San Francisco and Los Angeles was $6.00 one way and $10.50 round trip.

program on many of its trains, including the "Daylights" and "Lark", in an effort to obtain additional revenue. Reserved seat charges on these trains for interstate travel were discontinued, effective February 1, 1966. The special rail parlor car fares, sought to be discontinued by SP between San Francisco and Los Angeles and intermediate stations were established in 1940, at which time the one-way rail parlor car fare between San Francisco and Los Angeles was $11.55 and the round-trip fare was $16.95 (presently $20.55 one way and $30.00 round trip).

The Passenger Traffic Manager for the SP testified that the purpose of the sought relief is to maximize SP coach revenues by standardizing the rate per mile for local coach traffic between San Francisco and Los Angeles with the balance of the SP rail system. For example, under the SP proposal the coach passenger traveling between Los Angeles and San Francisco would pay the same rate per mile as the coach passenger is currently paying between San Francisco and Salinas, between Santa Barbara and Los Angeles, between San Jose and Dunsmuir, or between Los Angeles and Palm Springs.

Based on a study of 1965 traffic, the SP estimates that discontinuance of special coach fares and seat reservation charges on the Coast and San Joaquin "Daylights" and the "Lark" will produce additional revenue of about $212,000 annually; and that cancellation of special rail parlor car fares will produce about $31,000 additional revenue per year.[2] The record also discloses that, upon discontinuance of advance coach seat reservations, the SP will be in a position to realize annual payroll savings of $112,724.

2/ Includes an allowance for diminution of traffic of 1/4 of 1% for each 1% increase in fares.

The rail official testified that intrastate coach travel via the SP has been steadily declining for many years, due to the diversion of such traffic to other modes of transportation. The rail witness alluded to the expanding and highly successful competitive airline service available between San Francisco and Los Angeles; the flexibility of bus travel on schedules faster than via rail, over a continuously improving highway system; and the increased competition experienced by the SP from the private automobile.

Based on the experience of the "Daylight" and "Lark" trains, the SP traffic manager stated that there has been a substantial change in the character of coach patronage. He stated that a major segment of the California intrastate coach traffic lost by the SP on these trains has occurred within the 20 to 50 year age group. It is the SP's view that the type of local coach passenger now riding its trains between San Francisco and Los Angeles has a strong preference for rail travel and apparently does not desire the lower fares or flexibility of service of the bus lines nor the faster and more frequent available airline service. It is for this reason that SP contends the loss of patronage under the proposed cancellation of special short-limit coach fares will be minimized.

It is the position of SP that when it was handling a substantial share of the intercity traffic between San Francisco and Los Angeles there was some justification for according this volume of business "special treatment". Since this volume of coach traffic has been lost by the SP, it now contends that no bona fide reason exists for making any greater "fare concession" to the local San Francisco-Los Angeles traveler than SP accords other passengers traveling elsewhere over SP lines.

Discontinuance of advance coach seat reservations for California intrastate passengers will assertedly have no effect on patronage of the "Daylight" or the "Lark" trains. The SP witness stated that the level of coach travel on these trains has declined to the point where no problems are anticipated in providing adequate seating space for all passengers without requiring advance coach seat reservation. SP claims that since the removal of coach seat reservations for all interstate passengers, effective February 1, 1966, no problems in providing adequate seating capacity for interstate passengers have occurred.

If the proposed cancellation of special rail parlor car fares is authorized, the purchase of higher priced first class tickets, plus parlor car seat charge, would be required for this type of service. Such fare basis for rail parlor car service is assertedly standard railroad practice throughout the nation. The SP anticipates very little loss of intrastate parlor car traffic under the proposed discontinuance of existing reduced special rail parlor car fares.

In support of applicant's contention that the best method to improve its revenue-expense position, with respect to passenger service, is through an increase in the level of fares, SP introduced the testimony of a senior economist from the Stanford Research Institute. As part of an overall rail passenger traffic study, the economist made a comparison of the estimated out-of-pocket costs of air, bus and rail passenger transportation in the traffic corridor between San Francisco and Los Angeles. It was assumed that the vehicles used by the three modes of transportation would be those currently produced and used in service. For air and bus transportation, current publicly available financial and statistical data were used. For rail transport, costs were based on the operations of hypothetical trains and load factors, in order to reflect the asserted true economic capabilities of rail passenger trains moving large numbers of people on a single train. A summary of the direct cost comparisons is set forth in Table 3 below:

TABLE 3

	Estimated Cost Per Passenger	One-Way Fares Present	One-Way Fares Proposed
Bus	$ 9.10	$ 9.65	$ -
Air	9.89	11.43	-
Hypothetical Rail:			
Overnight-Sleeper	25.13	33.31	-
Daylight-Coach	19.31	12.50	17.40

From the intermodal comparisons of costs and related financial or statistical data relative to passenger transportation in the San Francisco and Los Angeles traffic corridor, the economist made the following general observations:

1. Rail passenger transportation is not cost competitive for distances such as between San Francisco and Los Angeles.

2. Rail transportation requires more labor and capital inputs per passenger than does like transportation by air or bus.

3. Maintenance of competitive fares has not stemmed the constant deterioration of the SP's revenue-cost relationship.

4. The decline in SP rail travel is not primarily associated with fare increases. Thus, it can be assumed that the proposed fare increase will not cause significant additional traffic losses.

5. The best hope for the railroad to improve its revenue-cost position on a route or routes that are sustaining out-of-pocket losses is through an increase in the level of fares.

In further justification of its sought increase in fares, the Southern Pacific Company presented financial data relative to its estimated annual net losses from California operations. It claims a net railway operating loss of $7,316,441 from passenger operations within the State of California for the year 1964. It also claims a net railway operating loss of $11,015,906 from intrastate freight operations for the year 1964. SP also submitted the annual financial operating results of its California intrastate passenger trains during 1965-1966. SP passenger trains affected by the proposed fare increase sustained a net loss of $4,288,800 and those passenger trains not affected by the sought increase in fares experienced a net loss of $1,981,100.[3/]

The City and County of San Francisco submitted a resolution, adopted by its Board of Supervisors, opposing the Southern Pacific Company's sought increase in fares. The Council of the City of Los Angeles also submitted a resolution in opposition to SP's sought increase in fares, wherein it is alleged that the sought increase "will serve to accelerate the decline of rail passenger patronage which already has been depressed because of the Company's refusal to provide an acceptable passenger service..."

The Commission's Divisions of Finance and Accounts and Transportation introduced in evidence a joint report relative to applicant's financial position and the effect of the proposed fares upon passengers and revenue. The accounting and financial data developed by the staff are based upon an examination of SP's

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3/ An outline of procedures employed by SP for separating its intrastate and interstate expenses is set forth in Appendix A of Decision No. 58226, dated April 7, 1959 (57 Cal. P.U.C. 117,130). All items of "net loss" and "net railway operating loss" referred to are based on allocations of full costs.

accounting records for the calendar years 1964 and 1965 These staff financial data were recently presented in evidence in a related proceeding involving SP's sought discontinuance of the "Lark" trains Nos. 75 and 76 between San Francisco and Los Angeles and the San Joaquin "Daylight" trains Nos. 51 and 52, between Bakersfield and Los Angeles. Such data are summarized in the Commission's Decision No. 70939 of July 1, 1966, in Applications Nos. 48219, 48220, 48356 and Case No. 8378.

In order to evaluate the effect of the proposed fare changes, the staff conducted a study of passengers and revenues using intrastate coach ticket samples taken in the first three months of 1966. The samples were analyzed and priced out at both present and proposed fares. Sample totals were then expanded to reflect annual passenger totals.

The staff contends that the sought increase in fares would result in a significant loss of coach and parlor car passengers. These losses were estimated by the staff and the revenues reflecting the changes in both passengers and fares determined. Under the proposed fares, it is estimated that coach passengers would decrease by 22,000 and parlor car passengers by 4,000. The total estimated passenger loss would amount to 13 percent and revenues would decrease by 5 percent. It is the conclusion of the staff that the proposed fare changes would substantially decrease the number of California intrastate coach and parlor car passengers, produce lower revenues to the applicant and further erode the basis for rail passenger transportation in California. It is the recommendation of the staff that the application be denied.

In lieu of the relief sought by the SP, the staff renewed its prior recommendation, originally presented in the recent "Lark" and San Joaquin "Daylight" proceeding (Decision No. 70939) that the one-way coach fares between the Los Angeles and San Francisco areas be reduced to $10.00.[4/] The staff proposal in this proceeding is also extended to the Los Angeles-Sacramento fare, which is presently at the same level as the Los Angeles-San Francisco fare. It is the position of the staff that a $10.00 fare, including seat charge, would bring rail fares between the two largest California metropolitan areas in line with bus fares and below air fares. The reduction would serve to promote passenger train traffic, stimulate additional riding, and should improve the revenue-expense relationship of the trains connecting these areas.

Discussion, Findings and Conclusions

A substantial amount of the evidence submitted in the instant proceeding by the Southern Pacific Company and the Commission staff was also introduced in the prior related "Lark" and San Joaquin "Daylight" train abandonment proceeding (Decision No. 70939). Since no useful purpose would be served by restating such evidence here, official notice will be taken of the Commission's findings and conclusions as expressed in that decision, especially with respect to those areas of concern dealing with applicant's financial results of operations and the level and quality of passenger service rendered.

There was considerable difference of opinion expressed concerning the appropriate factor for diminution of traffic to be used when computing the estimated revenue results of SP's sought

4/ In Decision No. 70939 the Commission concluded that it would not order Southern Pacific specifically how "to promote and advertise its service..." Therefore, no action was taken relative to the Commission staff's recommended fare reduction.

increase in fares. The SP contends that the loss of patronage would be negligible. This conclusion is predicated upon the opinion that the rail carrier's existing depressed volume of passenger traffic now includes only those rail patrons whose strong preference to travel by rail is such that they are willing to pay a higher fare for rail service, in lieu of other service available via bus or airline at lower fares. The staff, on the other hand, estimates a 25-30 percent loss of traffic under this particular situation, should the proposed fare adjustment be authorized, resulting in an estimated 5 percent decrease in revenue. While we do not quarrel with the staff rationale, we are persuaded, in this particular instance, that the demand for rail travel under SP's existing depleted patronage will be considerably less elastic than that suggested by the staff, which might be quite realistic were applicant's load factor substantially more attractive. On the other hand, we do not agree that the forebearance of SP's remaining patrons is without limitation, or that their preference for rail travel is so strong that they will absorb any fare increase.

It is apparent that the existing SP intrastate passenger service is not a profitable operation. What is not clear is to what extent the indifferent attitude of the Southern Pacific Company contributes to the present enervation of SP's passenger operations. Such attitude will, of course, have a detrimental effect upon SP's costs of operations. SP's failure to give any recognition to such factors in the development of its estimated costs of intrastate rail passenger operations, coupled with the use of unaudited public financial data, pertaining to the operating costs of bus and airline transportation, is largely fatal to any subsequent SP testimony relative to an economic comparative analysis as between the various modes of transportation.

The SP advances somewhat conflicting reasons in justification for the sought substantial increase in fares. For example, the purpose of the proposed increase in coach fares is assertedly to maximize coach revenues by standardizing the rate per mile for local coach traffic between San Francisco and Los Angeles with the balance of SP's rail passenger systems. Applicant contends that the existing reduced special coach fares were justified only when the rail line was enjoying a major share of the intercity travel between San Francisco and Los Angeles, and now that such volume of traffic has been lost to other competing modes of transportation, no "special treatment" or "fare concession" is warranted or justified. While the desire of applicant to maximize its passenger revenues may be entirely laudable, SP's sought attainment of such objective through the medium of drastic increases in fares, at a time when it is experiencing a depressed or declining traffic volume, does violence to any economic concept of a truly progressive passenger carrier striving to provide a competitive service.

It is clear that applicant has, for all practical purposes, remained competitively dormant until its volume of passenger traffic has deteriorated to a point where the demand for the rail carrier's service has become highly inelastic. Under such conditions there obviously is no justification for penalizing the remaining patrons of SP for not pursuing the course of the majority by looking to the bus or airlines for travel accommodations. Aside from applicant's attitude toward its present and future passenger service, we are convinced that its estimate of additional revenue that would be produced under its sought adjustment in fares is overly optimistic. However, even if SP's revenue forecast under its fare proposal were to be completely realized, such added revenue would contribute but little toward alleviating SP's asserted annual intrastate net railway operating deficit.

With respect to the present requirement for advance coach seat reservations for California intrastate passengers, we are convinced that this extra service is an attractive feature to many passengers and should be continued on an optional basis even though present operating conditions do not require that it be continued for all passengers. For those passengers requesting and occupying reserved seats, the company will be authorized to make the same charges as those now in effect for reserved seats, in addition to the regular fares authorized herein. In permitting the discontinuance of the requirement that all passengers have reserved seats, we remind the company of its responsibility to provide sufficient seats for all intending passengers.

Through cross-examination, it was developed that the staff's recommended alternative one-way coach fare of $10.00, including seat charge, applicable between San Francisco-Sacramento and Los Angeles was also intended to apply in connection with all classes of coach service as well as rail parlor car and first class service. The staff further suggested that, in connection with parlor car service, the recommended $10.00 fare be made subject to an additional seat charge of $2.50 in lieu of the present charge of $2.75. Pullman car charges presently in effect would be continued under the staff alternative proposal. The staff witness explained that the proposed parlor car seat charge of $2.50 represents the differential between the existing special one-way coach fare of

$12.50, including seat charge, and the staff proposed alternative basic coach fare of $10.00. The staff witness further stated that the suggested promotional fare of $10.00 was predicated upon the collective judgment of the staff and was intended to apply as a maximum fare at all intermediate points and subject to the usual tariff provisions governing round-trip fares.

To the extent that both the applicant and the staff seek, among other things, to improve the SP's revenue-expense relationship, they share a common objective. In order to obtain such common objective, however, the SP and the staff vigorously recommend diametrical courses of action. In view of the present transportation characteristics surrounding the SP's intrastate passenger service, it is considered extremely doubtful or speculative that the common objective of applicant and the staff would sufficiently materialize at this time in order to justify the rather drastic and contrasting experimentation in rail coach and parlor car fares suggested by either the SP or the staff. It is patently clear that an acceptable solution to SP's existing passenger service problems first requires that steps be taken to upgrade the quality of its rail passenger coach service; second, that the SP take on a more positive and constructive attitude to serve its patrons as previously recommended by the Commission in Decision No. 70939; and finally, in view of the acute competition between the various modes of transportation for intrastate passenger traffic, the SP should give serious consideration to an adjustment in fares such as suggested by the staff which, when coupled with a positive and vigorous effort by the SP to merchandise its passenger service, is more likely to improve the revenue-expense relationship of SP than is its present proposal to increase fares.

We are convinced that, until the SP has reestablished a marketable intrastate passenger coach service and, in view of SP's present unfavorable passenger revenue-expense relationship, the current level of passenger coach and parlor car fares, including the existing seat charges, should be retained. Such action, along with the additional revenue and savings in payroll expenses which the SP will realize from the optional coach seat reservations program authorized herein, will enable SP to improve its intrastate passenger revenue-expense relationship, without any increase in the present level of charges, except for those passengers who desire a reserved seat. Under the alternative fare approved and recommended herein, it is contemplated that applicant would be authorized to publish its present one-way special short-limit transportation coach fare, plus the existing seat charge, as a single factor fare, similar to the existing special rail parlor car fare, which would remain unchanged.

We find that:

1. The findings and conclusions reached by the Commission in Decision No. 70939, dated July 1, 1966, relative to the level, quality and financial results of Southern Pacific Company's California intrastate passenger operations are equally applicable in the instant proceeding as well as confirmed by the evidence introduced herein.

2. The present California intrastate passenger service involved herein is not a profitable operation.

3. Southern Pacific Company is a financially solvent utility.

4. The indifferent attitude expressed by Southern Pacific Company toward its present and future California intrastate

passenger operations has had a definite detrimental effect upon the rail carrier's intrastate passenger service and its revenue-expense relationship.

5. The patronage of Southern Pacific Company's special coach and parlor car accommodations has so deteriorated as to make diminution forecasts, pursuant to upward adjustments in fares, highly speculative.

6. The sought increase in special coach and parlor car fares, in effect, constitutes a punitive financial action against Southern Pacific Company's remaining local coach and parlor car patrons.

7. The sought increase in fares under the existing level and quality of passenger service would make but little, if any, contribution towards applicant's efforts to alleviate its present unfavorable revenue-expense relationship.

8. The sought increase in fares has not been shown to be justified or in the public interest.

9. Advanced coach seat reservations should be made available on an optional basis for those California intrastate passengers who desire this service; however, the provision that all passengers are required to have advance coach seat reservations is no longer essential and should be discontinued.

10. The present special short-limit coach fare, including seat charge, and the special rail parlor car fare, including parlor car seat charge, should be retained. Applicant should be authorized to publish the one-way special transportation coach fare, plus seat charge, as a single factor fare. The reservation charges for those passengers requesting and occupying reserved coach seats should be established in addition to the single factor fares at the same level as the present special service charges.

In view of the above findings, we conclude that Application No. 48196, as amended, should be granted to the extent hereinafter provided and that the Commission's Order Instituting Investigation in Case No. 8426 should be discontinued.

ORDER

IT IS ORDERED that:

1. Southern Pacific Company is hereby authorized to discontinue the advance coach seat reservation requirement for California intrastate passengers as proposed in Application No. 48196, as amended, and concurrently to publish the present one-way special short-limit transportation coach fare, plus applicable seat charge or the regular coach fare without seat charge, whichever is lower, as a single factor special short-limit coach fare, including seat charge, and concurrently to cancel present special service charges for intrastate passengers occupying reserved coach seats.

2. The authority contained in paragraph 1 hereof is granted upon the condition that Southern Pacific Company concurrently establish a system to provide a reserved coach seat for those California intrastate passengers who request it, the charge for such reserved seat to be the same as the existing special service charge.

3. Tariff publications authorized to be made as the result of the order herein may be made effective not earlier than thirty days after the effective date hereof on not less than thirty days' notice to the Commission and the public.

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

5. To the extent not granted herein, Application No. 48196, as amended, is denied and Case No. 8426 is discontinued.

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

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

Peter E. Mitchell
President

A. W. Gatov
William M. Bennett
Commissioners

We will file a separate opinion.

George G. Grover
Frederick B. Holoboff

Decision No. 71505

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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CONCURRING OPINION OF COMMISSIONERS GROVER AND HOLOBOFF

We concur in the order. It allows SP, without loss of revenue, to effect annual savings of approximately $112,000 through elimination of the seat reservation requirement for each passenger. Although some expense will result from the new optional reservation system, that expense should be more than offset by the associated reservation charges. In the end, SP can be expected to realize somewhat more than $112,000 in new net revenue, which is about one-third of the net revenue increase which would result if SP's entire rate proposal had been approved. We believe that the size and kind of increase granted are appropriate under all the circumstances shown.

The majority opinion, however, fails to resolve the most important questions involved in this proceeding. The first is a question of fact: Will a reduction of the Los Angeles-San Francisco fare to $10 stimulate passenger traffic and thereby improve the company's revenues? Although the majority opinion (in the next to the last paragraph before the numbered findings) may seem to endorse the staff theory in this respect, a careful reading will reveal that it does not actually do so; it merely suggests that SP give the proposal serious consideration. The staff plan was thoroughly debated at the hearing, and in the face of SP's vigorous opposition it became a material issue which the Commission should have resolved. The ultimate responsibility for establishing rates belongs to the Commission -- not SP.

We sympathize with the majority's reluctance to meet this question squarely, for the record in this case indeed points towards a bleak prospect for rail passenger operations in the markets served by these trains. It ought to be clear by now that, in view of the other modes of transportation available between the points involved, rail passenger service simply cannot be competitive -- perhaps not even if acknowledged service deficiencies were to be cured. We simply cannot believe that reducing the coach fares in issue here would attract sufficient passengers to overcome the existing losses. From all that appears, the majority does not believe it either; otherwise, why not order SP to adopt the staff proposal? At best, that proposal involves a risky experiment; SP is unwilling to underwrite the risk, and the Commission appears equally unwilling to assume responsibility for ordering the company to do so.

The notion that lower fares would improve revenues tends to suggest that the passenger deficit is somehow SP's fault. By facing the fact that lower fares will not solve the problem, we would be better able to face the larger fact that SP's California passenger operations cannot be made profitable. It is not our purpose here to defend SP; indeed, competitive advertising and better service might attract additional passengers and even reduce the net loss. But a substantial deficit is certain to remain. Berating SP for its lack of passenger enthusiasm will not make the cars and airplanes go away.

All of which leads to the second major question in this proceeding -- a question of policy: What should we do about the railroad passenger deficit?

If the existing passenger operations are to be salvaged, some form of public financial participation is necessary to relievetthe losses being incurred and thereby to ensure that unreasonable subsidies will not be extracted from shippers of freight. Thus far, part of the rationale for requiring the retention of unprofitable passenger operations has been the proposition that as long as overall operations are profitable passenger losses should be absorbed. However, reliance upon profitable freight operations to absorb passenger deficits, while a legitimate regulatory approach, has its limitations. In view of the intermodel competitive pressures to which rail freight operations are subject, it simply is not foresighted to assume that freight operations will always have the capacity to absorb passenger losses.

Regrettably, rail passenger service in California is down to a minimum. This Commission only recently recognized this fact and committed itself to the retention of such minimum by its denial of requests to discontinue the Lark and the San Joaquin Daylight service. The Interstate Commerce Commission appears to be equally concerned in this regard, as evidenced by its denial of requests to eliminate the Del Monte and Shasta Daylight trains. Even so, unless measures such as are suggested here are forthcoming, that minimum may not long survive.

George G. Grover

Frederick B. Holoboff

December 31, 1966