BEM

Decision No. 74199

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY, SANTA FE TRANSPORTATION COMPANY, NORTH-WESTERN PACIFIC RAILROAD COMPANY, SOUTHERN PACIFIC COMPANY, THE WESTERN PACIFIC RAILROAD COMPANY and UNION PACIFIC RAILROAD COMPANY to increase one-way and round-trip first class and coach class passenger fares (except local fares between San Francisco and San Jose).	Application No. 49881 (Filed December 15, 1967)

Charles W. Burkett, Leland E. Butler, Larry W. Telford and Walter G. Treanor, for applicant rail carriers; Marshall W. Vorkink, for Union Pacific Railroad Company; Leland E. Butler, for Santa Fe Transportation Company; applicants.
Joseph B. Swartzburg, in propria persona, protestant.
R. W. Russell, by K. D. Walpert, for City of Los Angeles; George M. Ballard and James E. Howe, for Brotherhood of Railroad Trainmen AFL-CIO; interested parties.
John C. Gilman, Counsel, for the Commission staff.

O P I N I O N

By this application five major railroads operating in California seek authority to increase intrastate passenger fares. For technical reasons, Santa Fe Transportation Company (SFT), a passenger stage corporation, is also designated as an applicant. It is proposed to increase by five percent all local and joint all-rail and joint rail-motor or coordinated rail-bus, passenger fares and charges, excess baggage charges, and parlor car seat charges, except as to local fares via Southern Pacific Company between San Francisco and San Jose.

At the time of filing of the instant application, SFT provided California intrastate passenger service solely between Los Angeles and Bakersfield, carrying only passengers to or from Southern Pacific trains Nos. 51 and 52 (San Joaquin Daylight) in connection with subsequent or prior movement on those trains. No local service was provided. SFT was made a party to the application because of the technical requirement for rate parity between Southern Pacific and Santa Fe in order to facilitate an optional ticket-honoring arrangement between the latter two companies. Official notice is hereby taken of Decision No. 73944, dated April 23, 1968 in Application No. 49889, in which the Commission authorized SFT to suspend its California intrastate operations, that is, the service between Los Angeles and Bakersfield, pending consideration of the effect of discontinuance of said operations upon its employees and determination as to whether provision for the protection of such employees is required by the public interest.

Public hearing of the application was held before Examiner Bishop on February 27 and March 1, 1968 at San Francisco and Los Angeles, respectively. Evidence on behalf of applicants was presented through the assistant director of cost and economics of the Western Railroad Traffic Association, the chairman of the Western Railroad Passenger Association,[1/] the statistician of The Atchison, Topeka and Santa Fe Railway Company (Santa Fe), the senior transportation analyst of Southern Pacific, and by passenger traffic officials of these two applicants.

1/ This witness is also chairman of the Southwestern Railroad Passenger Association and of the Transcontinental Railroad Passenger Association.

The record shows that a five percent increase in passenger fares applicable to interstate traffic throughout the country became effective on December 1, 1967. The increases herein proposed are designed, inter alia, to bring California intrastate fares, on a per-mile basis, up to current interstate levels.[2/]

An exhibit, introduced by the Passenger Association chairman, set forth the history of applicants' California fares in recent years. The fares of the respective applicants have not been maintained on a uniform level and have not been increased synchronously. The present intrastate first class fares became effective as follows: Santa Fe and Union Pacific (UP), May 20, 1957; Northwestern Pacific (NWP), June 7, 1962; Southern Pacific (SP) and Western Pacific (WP), October 10, 1963. Present coach class fares took effect as follows: NWP and UP, June 7, 1962; SP, October 31, 1963;[3/] WP, November 1, 1963; Santa Fe, July 1, 1967.

2/ Similar applications have been filed by the railroads in other states where authority to increase intrastate fares is required.

3/ By Application No. 48196, filed early in 1966, SP sought substantial increases in its California intrastate coach class and parlor car fares. By Decision No. 71505, dated November 1, 1966, the application was denied, except that (1) coach seat reservations were made optional, resulting in a saving in operating costs; (2) the existing seat reservation charges were merged into the basic fares; and (3) additional charges, equal to the old reservation charges, were established for those passengers who elect to reserve coach seats. Official notice is hereby taken of said application and decision.

In the following table the present and proposed one-way fares, in cents per mile, of the five rail applicants are set forth:

TABLE I

Road	First Class		Coach Class	
	Present	Proposed	Present	Proposed
NWP	4.267	4.480	3.184	3.343
Santa Fe	3.859	4.052	3.039	3.191
SP	4.668	4.901	3.676	3.860
UP	3.859	4.052	3.039	3.191
WP	4.245	4.457	3.343	3.510

In addition to the regular coach fares shown above, there are special coach fares in effect via SP between San Francisco and Los Angeles. These fares, presently in effect and as proposed, are as follows:

TABLE II

	Present	Proposed
One-way	$12.50	$13.15
Round trip	22.70	23.85

Apart from the minor increases granted in 1966 in the Southern Pacific coach fares by Decision 71505, above, and the increases in Santa Fe coach fares effected in 1967 (by Decision No. 72224) the California intrastate fares of applicants were last adjusted in 1957, 1962, and 1963. The 1967 fare adjustment of Santa Fe reflected generally an increase of 5 percent, except that increases in fares between San Francisco, Bakersfield, and points intermediate thereto averaged approximately 19 percent. The Santa Fe fares were previously lower than those of Southern Pacific between competitive points on the latter's San Joaquin Valley route. In that area they were brought up to the level of the SP fares in view of an optional ticket-honoring agreement which was in effect between the two carriers.

The aforesaid assistant director of cost and economics presented an exhibit in which financial, cost and operating data of the five railroad applicants were set forth. The figures were not shown for the carriers individually but in the aggregate or average for the entire group. Moreover, the data were not confined to California intrastate operations; they reflected rather the system operations of applicants.[4] Thus, total system passenger revenues of the five carriers, the exhibit shows, declined from 98 million dollars in 1962 to 82 million dollars in 1966, and the total passenger deficit of these carriers based on fully allocated costs ranged from $71,213,000 in 1962 to $80,459,000 in 1965, to $78,310,000 in 1966.

The aforesaid exhibit also showed increases in operating costs which applicants have sustained. In the period 1962-1967 system average straight time rates of pay for the five rail applicants as a group increased by 18½ percent and the cost of materials and supplies increased 5½ percent, wages constituting approximately 60 percent, and materials and supplies approximately 30 percent, of total operating expenses. During the period from April 1966 to June 1967, their total system aggregate operating expenses increased by $82,485,000 annually. Increases were experienced in wages and related expense and in the cost of material and supplies, among other items. The stated figure relates to system passenger and freight operations combined.

Estimated additional revenues to be derived from the sought increased fares, as shown in the assistant director's exhibit amount to $126,980. The breakdown for the five roads is as follows:

4/ Northwestern Pacific is the only one of the five rail applicants operating entirely within the State of California.

TABLE III

SP	$70,000
Santa Fe	52,200
WP	3,300
UP	970
NWP	510

The estimate was developed by multiplying the actual California intrastate passenger ticket revenue of each rail applicant for the year 1967 by 5 percent after certain necessary adjustments had been made. These involved exclusion of SP commutation service revenues and exclusion of estimated revenues from Santa Fe Trains Nos. 7 and 8, the operation of which was discontinued in 1967.[5/] In arriving at the estimate of $126,980 it was assumed that there would be no loss of traffic for any of the applicants by reason of the increase in fares.

The Passenger Association chairman testified that a substantial portion of applicants' revenues is derived from intrastate travel; that "every possible means" has been exerted to reduce the passenger deficit, including efforts to discontinue the operation of non-profitable passenger trains where it has been definitely shown that there is no possibility of regaining passenger train revenues sufficient to continue their operation; that in freight rate increase proceedings applicants have been frequently reminded of the large passenger deficit; that the proposed fare increases will only partially alleviate the passenger deficit situation; and that it is for this purpose that the proposed fare increases are sought.

5/ Official notice is hereby taken of Decision No. 73850, dated March 12, 1968 in Application No. 49654, in which SP was authorized to discontinue operation of the "Lark", Trains Nos. 75 and 76, between San Francisco and Los Angeles. Accordingly, the estimate of increased revenue above, is overstated to the extent that it includes revenue from those trains. Also the Santa Fe estimate is understated, since it does not give effect for a full year to the 1967 fare increases.

With respect to the desire of applicants to maintain their intrastate and interstate fares at the same level, this witness testified that a lower level for intrastate fares would be discriminatory against the interstate passenger, since he would be paying a higher fare per mile for substantially the same services on the same train at the same time.

Applicants did not introduce any California intrastate passenger operating expense data for the roads, either individually or as a group and no figures as to individual or aggregate California intrastate passenger operating results for any recent period. However, at the request of counsel, official notice was taken of findings heretofore made by the Commission relative to applicant Santa Fe as follows:

> "The record reveals that its /Santa Fe's/ total California intrastate operations showed a net loss." (Decision No. 68271, dated November 24, 1964 in Application No. 46609 - Application to discontinue certain trains between Los Angeles and San Diego).
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> "Applicant's California intrastate passenger operations continue to reflect net operating deficits since the last fare increase was authorized.
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> "The additional revenue contemplated under the proposed fares will be insufficient to return the fully allocated costs of applicant's California intrastate passenger service." (Decision No. 72224, dated March 28, 1967 in Application No. 49047, above.)

The Santa Fe statistician testified that the most recent study he had made, in the latter part of 1966, showed that Santa Fe's California intrastate operations reflected annual deficits of $3,108,000 in the freight service and $4,979,000 in passenger operations. To make studies of operating results for individual trains would not, in his opinion, be helpful in an intrastate fare proceeding since trains operating wholly within the state carry interstate, as well as intrastate passengers, and trains operating between California and other states carry intrastate, in addition to interstate passengers.

The senior transportation analyst testified to the same general effect, with respect to revenue and expense studies made for SP and NWP, adding that his department had made such studies each year for the past five years and that during each of those years SP sustained California intrastate passenger losses of more than \$5,000,000.[6/]

The Passenger Association chairman and the passenger traffic officials testified that, in their respective opinions, publication of the proposed fares would not result in loss of passengers by reason of the increases. Reasons given for this judgment were (1) the small amounts of the increases,[7/] (2) passengers use trains in preference to other modes of travel because of greater comfort and convenience with freedom to move around; (3) elderly persons will continue to use trains because they prefer not to fly, or are unable to drive their own cars.

The Santa Fe assistant general passenger traffic manager further testified that most of that carrier's California intrastate passenger revenue is produced by the "San Diegans" (63 percent), operating between Los Angeles and San Diego, and by Trains 1 and 2,

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6/ According to this witness, SP's California intrastate freight service likewise operated at a loss during each of those years.

7/ Examples of proposed increases in one-way coach, or special coach fares are: San Francisco to Los Angeles, 63 cents, Bakersfield, 52 cents, Fresno, 34 cents, Santa Barbara, 61 cents; Los Angeles to San Diego, 19 cents, Modesto, 54 cents.

the "San Francisco Chief" (22%) in the Valley area, between San Francisco, Bakersfield and intermediate points. He said that there has been a continuing downward trend in passengers on the San Diegans. This, he believes, has not been caused by fare increases, but by changes in travel habits. The strongest competition comes from private automobiles, and secondly, from the buses. Fares of the latter have been historically lower than the rail fares. In the San Joaquin Valley competition comes from Southern Pacific, private automobile, buses and planes. Santa Fe no longer provides coordinated rail-bus service between San Francisco Bay points and Los Angeles via Bakersfield, as it formerly did, and is not a factor in the market for traffic between the Bay area and Los Angeles.

The SP assistant passenger traffic manager further testified to the effect that prior to December 1, 1967 the rate per mile was the same for fares between Klamath Falls, Oregon and Reno, Nevada, on the one hand, and San Francisco, California, on the other hand, as for fares between Dunsmuir and Truckee, California, respectively, and San Francisco, but that since that date the rate per mile between said out of state points and San Francisco has been higher than that for the indicated intrastate movements. He also testified that SP's main competition between San Francisco and Los Angeles, and points intermediate thereto, is the private automobile; that the lowest air fare between San Francisco and Los Angeles is lower than the rail coach fare but that the great majority of the available flights are subject to fares higher than the rail fare; that the present bus fare is about $2.00 lower than the rail fare, and the proposed increase in this differential by approximately 60 cents will not, in his opinion, be so great as to cause SP to lose passengers to the buses.

An assistant transportation engineer from the Commission's staff compared the present and proposed one-way rail coach fares for representative trips between points in the San Francisco-Los Angeles corridor, via Coast and Valley Routes and in the Los Angeles-San Diego corridor, with the lowest available air and bus fares between the same points.

Between Los Angeles and San Francisco and between Los Angeles and San Diego the compared fares, adjusted as shown in the margin,[8/] are as follows:

TABLE IV

	S.F.-L.A.	L.A.-S.D.
Bus	$10.32	$ 3.55
Air	12.00	6.35
Present Rail	12.50	3.85
Proposed Rail	13.15	4.04

The staff witness testified that in California passenger traffic is heaviest between San Francisco and Los Angeles and between Los Angeles and San Diego; that there are approximately 80 flights by air and 35 trips by bus each way daily between San Francisco and Los Angeles; that very few of the flights are at the rate of $11.43; that the competition of the air lines and buses is heavy and could easily divert traffic from the trains if the present fare of $12.50 were to be increased. He further testified that there are some 20 through buses per day each way between Los Angeles and San Diego and a total of some 50 buses, including local segments, available on the

8/ In setting up the fare comparisons the staff witness had assumed that applicants intended to round off the increased fares, if authorized, to the nearest figure ending in 0 or 5. The record shows that this is not the case except for the SF-LA fare. The proposed fare has been restated to eliminate the rounding off. Also, the lowest air fare, which is $11.43, has been increased to $12.00 to include a 5 percent tax, to which it is subject.

route between those points, that the air fare is substantially higher than the rail fare; that the airlines are not a very strong competitor with the trains between these points, but that the buses furnish substantial competition; that an increase in the rail fare would cause loss of traffic to the buses. In his opinion the fares between the terminal areas, that is, San Francisco-Los Angeles and Los Angeles-San Diego, should not be increased. The proposed 5 percent increase in fares from, to or between points intermediate to these termini, he believed, would be proper, subject to the present through rates of $12.50 and $3.85 as maximum. His opinion with respect to the Los Angeles-Sacramento fare was the same as that regarding the Los Angeles-San Francisco fare, although the competition to and from Sacramento, he stated, is not as keen. With reference to fares from or to points beyond the termini, such as from Los Angeles to Dunsmuir, when constructed by use of the Los Angeles-San Francisco rate as a factor, the witness believed that the proposed increase should be authorized only in the factor beyond San Francisco.

The staff witness could not say for a certainty whether SP would be worse off financially if the San Francisco-Los Angeles fare were increased as proposed.

At the Los Angeles hearing an individual, appearing in his own behalf, testified as a protestant. He stated that as a traveling sales representative he had used rail transportation for the past 22 years; that during that time the rail passenger service had steadily declined, as evidenced by the dwindling number of trains and of available convenient schedule connections between different roads. He was of the opinion that the proposed increases in fares would not increase passenger revenues but would result in a loss of passengers to other means of transportation.

The Brotherhood of Railroad Trainmen appeared as an interested party in the proceeding. However, its representative expressed the view that the fare increases, if authorized, will result in a further decline in intrastate rail passengers, and that applicants will not realize the increase in revenues which they anticipate.

The position of the staff in this matter, as stated by its counsel, is that no increases are justified in fares for trips between the termini of San Francisco and Sacramento, on the one hand, and Los Angeles, on the other hand, or between the termini of Los Angeles and San Diego. The staff has no objection to the proposed increases in other respects except that fares between points intermediate to the above-mentioned termini or between such points and said termini should not exceed the present terminal-to-terminal fare; and that fares made by combination of one of the terminal-to-terminal factors with a mileage factor beyond should be subject to the 5 percent increase only in the latter factor. It is the staff's position also that the application should be viewed in the broader aspect of service, as well as consideration of fare levels. Counsel indicated that in the highly competitive San Francisco-Los Angeles and Los Angeles-San Diego markets the avenue to greater revenues might be through improved service, and that the proposed fare increases may be self-defeating.

The record shows that the preponderance of passenger traffic involved in this proceeding moves between San Francisco and Los Angeles via Coast and Valley routes and between Los Angeles and San Diego, with some measure of traffic from and to intermediate points. These movements involve SP and Santa Fe. Intrastate traffic via WP, UP and NWP is minor. Accordingly, the greatest concern here is with the fares between the indicated termini.

With respect to the comparison, in Table IV, of the lowest air fare ($12.00, including tax) with the SP special coach fares ($12.50 present, and $13.15 proposed) between San Francisco and Los Angeles, some comments are in order. Round trip fares by rail are sold at 180 percent of the one-way fares, while via air the round trip fare is double the one way. Thus the round trip fares between the two points in question are $24.00 via air (using the lowest available fare and including tax) and $22.70 via rail. Even the proposed round trip rail fare, $23.85, is less than said air fare.

It is fair to state that ordinarily when reduced round trip fares are available, persons making such trips will purchase the round trip ticket in preference to two one-way tickets. Further, the record indicates that the majority of persons traveling by air between San Francisco and Los Angeles utilize flights for which the fares are higher than that shown in Table IV.

It is further observed that the air fares shown in Table IV apply from airport to airport. Bus service between the airports and the downtown air terminal (in San Francisco) and major hotels (in Los Angeles) are subject to additional charges which are substantial.[9/]

We find that:

1. The preponderance of traffic moving at the fares in issue in this proceeding is handled by Southern Pacific and Santa Fe.

9/ In a supplemental exhibit, requested by the presiding officer, the staff witness showed the effect on the comparison of bus, rail, and air fares of the air fare tax, the rail round trip fares, and the factors to be added to the line haul fares via the three modes to arrive at through costs between representative points in the two cities.

2. The preponderance of said traffic handled by Southern Pacific and Santa Fe moves between San Francisco, Los Angeles and points intermediate thereto via the Coast and Valley routes or between Los Angeles, San Diego and points intermediate thereto.

3. Since the discontinuance of the "Lark" trains there has been and is only minor use of first class fares by California intrastate passengers.

4. First class California intrastate fares of rail applicants have not been increased since 1957 (Santa Fe and UP), 1962 (NWP) and 1963 (SP and WP).

5. California intrastate coach fares of rail applicants other than Santa Fe have not been increased since 1962 (NWP and UP) and 1963 (WP and SP-exclusive of a minor increase in 1966).

6. California intrastate coach fares of Santa Fe which were increased in 1967, together with UP coach fares, are still on the lowest level, in cents per mile, of all rail applicants.

7. SP has special coach fares between San Francisco-Sacramento and Los Angeles which are lower than their regular mileage-based scale of fares.

8. System passenger revenues of the five rail applicants, in the aggregate, have been steadily declining, at least since 1962, with no indication that the trend will turn upward.

9. System passenger operations of the five rail applicants, in the aggregate, have resulted annually, from 1962 through 1966, in losses ranging from $71,000,000 to $78,000,000.

10. In the period from April 1, 1966 to June 30, 1967, system operating expenses of the five rail applicants reflected annually recurring increases totaling $82,485,000.

11. In the period 1962-1967 system average straight time rates of pay for the five rail applicants as a group increased by 18½ percent and the cost of materials and supplies increased 5½ percent, wages constituting approximately 60 percent, and materials and supplies approximately 30 percent, of total operating expenses.

12. It appears corresponding increases in operating costs were experienced in the California intrastate passenger services of each of the rail applicants.

13. For at least the past five years California intrastate operations of Santa Fe and SP have resulted in substantial losses based on fully allocated costs, far in excess of the anticipated increase in revenues under the rates proposed in this proceeding.

14. It appears that the California passenger operations of the other three rail applicants have also been conducted at a loss during the same period.

15. The removal of first class mail from trains of applicants in the latter part of 1967 as a result of change in Post Office Department policy will tend to accentuate the passenger deficit position of applicants.

16. Between San Francisco and Los Angeles, SP, the effective rail passenger traffic carrier, experiences strong competition from air lines and private automobiles, and to a lesser degree, from buses. Between Los Angeles and San Diego similarly, Santa Fe experiences strong competition from private automobiles and buses, and to a lesser degree from air lines. Throughout the state the rail lines face the competition of these agencies in varying degrees.

17. While the amounts of proposed increase in individual tickets are small, and the pattern of rail travel as it is now constituted is such that it is difficult if not impossible to estimate

what amount of additional revenue will result from the establishment of the sought fare increases, establishment of the sought fare increases should, in some degree, mitigate the California intrastate passenger deficits of rail applicants.

18. As to the rail applicants, the proposed fare increases are reasonable and are justified.

We conclude:

1. With respect to the rail applicants the application should be granted.

2. In view of the fact that the California intrastate passenger service of SFT has been suspended, and may be discontinued, the application, as it affects that carrier, should be denied. In the event that service is resumed, appropriate fare relief may then be sought.

O R D E R

IT IS ORDERED that:

1. The Atchison, Topeka and Santa Fe Railway Company, Northwestern Pacific Railroad Company, Southern Pacific Company, Union Pacific Railroad Company, and The Western Pacific Railroad Company are authorized to establish the increased fares and other charges proposed in Application No. 49881. Tariff publications authorized to be made as a 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 to the public.

2. Application No. 49881, insofar as it relates to Santa Fe Transportation Company, is denied.

A. 49881 bem

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

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

Dated at San Francisco, California, this 5th day of JUNE, 1968.

President

Commissioners

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.