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Decision No. 75940

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN PACIFIC COMPANY for authority to maintain passenger fares between San Francisco-Oakland-Sacramento and Los Angeles areas on no lower a level than presently maintained between other points on its system.	Application No. 50670 (Filed November 8, 1968)

Charles W. Burkett and Robert S. Bogason, for Southern Pacific Company, applicant.
Thomas M. O'Connor, by William C. Taylor and Robert Laughead, for City and County of San Francisco; Robert W. Russell, for City of Los Angeles; Leland E. Butler, for The Atchison, Topeka and Santa Fe Railway Company; Howard Phillip Abelson, in propria persona; interested parties.
Gregory L. Thompson, protestant.
Vincent V. MacKenzie, Counsel, for the Commission staff.

OPINION AND ORDER

By this application Southern Pacific Company seeks authority to cancel its one-way and round trip special coach passenger fares applicable between San Francisco-Oakland-Sacramento and Los Angeles, and intermediate points. These fares apply in connection with: (1) the Coast Daylight (Trains Nos. 98 and 99) operating between San Francisco and Los Angeles, via the coast route; (2) the San Joaquin Daylight (Trains Nos. 51 and 52) operating between Oakland and Los Angeles via the San Joaquin Valley, with connecting bus service between San Francisco and Oakland; and (3) the Sacramento Daylight (Trains Nos. 53 and 54) operating between Sacramento and Lathrop, connecting with the San Joaquin Daylight at the latter point. After cancellation, applicant's regular coach fares, which are on a higher basis, would apply.

Applicant also seeks to increase its round trip parlor car fares to a uniform basis of 180 percent of the corresponding one-way parlor car fares. Parlor car service is provided on the Coast Daylight.

Public hearing was held before Examiner Bishop at San Francisco on February 4 and 10, and at Los Angeles on February 6 and 7, 1969. Evidence was presented by applicant through its passenger traffic manager and the vice president and manager of a market research company. The Commission's staff offered evidence through an associate transportation engineer. With the filing of certain exhibits by the staff on February 17, 1969 the matter was taken under submission.

The special coach fares are subject to time limits of five and 18 days for one-way and round trip tickets, respectively. The time limit for either one-way or round trip tickets under the regular fares is 180 days. The checked baggage privilege, also, is less liberal under the special coach fares than under the regular fares, the allowance being 100 pounds under the former, as compared with 150 pounds under the latter fares.

The fare increases which will result if the special coach fares are cancelled will range from zero percent up to 53 percent.[1/] Between San Francisco and Los Angeles, for example, the one-way fare would be increased from $13.15 to $18.27 (38.9 percent); between Bakersfield and Los Angeles the present one-way special coach fare

1/ For some of the shorter trips there would be no coach fare increase, where the regular coach fares only are in effect. Examples are: between San Francisco or Los Angeles and San Luis Obispo; between Oakland and Modesto.

of $4.35 would be superseded by the regular coach fare of $6.65 (52.9 percent); between Sacramento and Los Angeles the increase would amount to 33.1 percent. In Appendix A, attached hereto, other examples of the proposed fare increases are set forth. The round trip coach fares, both under the special fare and regular fare bases, are 180 percent of the one-way fares.

Applicant has an optional arrangement for coach passengers whereby a reserved seat may be obtained upon payment, in addition to the coach fare, of a reserved seat charge, which ranges from 25 cents to $1.00 depending upon the length of trip. Applicant proposes no increases in these charges.

The present round trip parlor car fares range from 146 percent to 181 percent of the corresponding one-way fares. The parlor car fares are single factor fares which include the reserved seat. Originally, they consisted of a rail fare plus a charge for the seat. Through the years the basic fare was increased from time to time, while the seat charge remained unchanged. These circumstances caused the wide spread in percentages mentioned above. The proposed uniform relationship of 180 percent of the one-way fare for round trip fares, the record shows, is the basis generally in effect on railroads throughout the country for all classes of passenger fares. Applicant proposes no changes in the one-way parlor car fares.

By Application No. 48196, as amended, filed on January 21, 1966, Southern Pacific sought authority to cancel its special coach fares, as it now proposes in the instant proceeding, and to allow the regular coach fares to apply in lieu thereof. By Decision No. 71505, dated November 1, 1966, the sought relief was denied.[2/]

At the hearing of the proceeding herein it was stipulated that the operation of applicant's Trains 51, 52, 53 and 54 was being conducted at an out-of-pocket loss of at least $590,000 per year. It was also stipulated that the operation of Trains Nos. 98 and 99 was being conducted at an out-of-pocket loss of at least $150,000 per year. The stipulation relative to the first-mentioned group of trains was predicated on a finding by the Commission in Decision No. 74832, dated October 15, 1968, in Application No. 50211, that the operation of said trains was being conducted at an out-of-pocket loss of at least $592,900.[3/]

By Decision No. 74199, dated June 5, 1968 in Application No. 49881, Southern Pacific, together with other railroads, was authorized to increase by five percent all of its California intrastate passenger fares, except those applicable in the San Francisco-San Jose local service. The increased fares became effective on the trains here in issue on July 25, 1968.

The passenger traffic manager testified as to the reasons for again seeking cancellation of the special coach fares. The trains are operating at a loss and applicant is of the opinion that as far as the Valley Daylights (the San Joaquin and Sacramento Daylights) are concerned, since the Commission has found that there

2/ Decision No. 71505 also denied a request of the carrier to cancel its special parlor car fares and to allow regular first class fares, plus a seat charge, to apply in lieu thereof. A request to eliminate the requirement that a reserved seat charge be assessed all Daylight coach passengers was granted. Thereafter reserved seats became optional, and the charge was made only as to passengers requesting reserved seats.

3/ In Application No. 50211, Southern Pacific sought authority to discontinue the operation of Trains 51, 52, 53 and 54. By the above-cited decision the sought relief was denied. Rehearing was denied by Decision No. 75178, dated January 7, 1969. Official notice is taken of these decisions.

is a need for their continued operation, the passengers who have this need and avail themselves of the service of the Daylights should do so at rates which are comparable to rates assessed by Southern Pacific on its trains in other intrastate and interstate movements throughout the states which it serves.

Additionally, it is the desire of applicant to place the Daylight fares on a uniform rate per mile basis, the same as applies elsewhere on its system. The special coach fares were first published in 1938, when applicant was handling a major share of the common carrier passenger traffic between San Francisco Bay points and Los Angeles. Decision No. 71505, above, of which official notice is taken, reveals that the fares in question were established to meet the reduced fares published for the newly authorized rail-bus co-ordinated service of The Atchison, Topeka and Santa Fe Railway Company (Santa Fe) and the Santa Fe Transportation Company.

Although applicant's proposal in 1966 to cancel the special coach fares was denied, the traffic manager asserted that conditions have changed since that time which justify favorable action by the Commission in the instant proceeding. First, there has been, he said, almost a continuous series of increased labor costs. He cited instances of wage and related increases which had been granted various employee groups during the past two years. Secondly, the five percent fare increase of July 1968 did not substantially offset increased operating costs. Thirdly, the additional revenue resulting under the optional seat reservation arrangement effected pursuant to Decision No. 71505, above, has been minimal.[4/]

4/ The record indicates that 7 or 8 percent of the passengers using the Coast Daylight request reserved seats.

Special coach fares formerly applied, the traffic manager testified, between California and points in the Pacific Northwest. Those fares were cancelled effective February 1, 1966, allowing the regular coach fares to apply. The fares were cancelled, he stated, because the trains on which they applied were operating at a loss and the carrier was attempting to maximize the revenues of those trains.

The witness asserted that passengers are concerned with the dollar amounts of increased fares rather than the percentages of increase. Thus the proposed one-way coach fare increase between San Francisco and Los Angeles is $5.12. He did not consider that amount sufficient to divert a substantial portion of the Daylight passengers to other forms of commercial transportation.

An exhibit of applicant compares its regular one-way coach fare between terminals, which would apply on cancellation of the special fare, with coach fares between selected points in the eastern section of the country. The distances involved ranged from 227 to 527 miles. Most of the fares shown were higher on a per mile basis than applicant's compared fare (distance 470 miles). Some of the roads involved in the comparison, the witness stated, had some special fares, good only on certain days or for special occasions. The fares used in the exhibit were the regularly available coach fares.

Applicant estimates that if the application herein is granted a total increase in revenues on the subject trains of $135,198.90 per year will be produced. This total is broken down to $89,481.51 for the Coast Daylight and $45,717.39 for the Valley Daylights. The aggregate figure reflects an estimated increase of approximately 20 percent in total revenue from these trains.

The foregoing estimates were developed, the traffic manager explained by taking a seven-day sample of tickets, including all of the special coach fare tickets presented for transportation on those days. Seven days scattered through the month of November, 1968, including one for each day of the week, were used. The aggregate revenue for each point-to-point movement for the seven days was then expanded to a full month and the latter annualized, applying a correctional factor to give effect to the higher traffic levels of the vacation and holiday seasons. Substitution of revenues under the proposed fares was followed by like expansion to an annual basis, to which diminution factors were applied to arrive at the estimated increased revenues for each movement.

The diminution factors were supplied to the traffic manager by the market research company manager. No diminution in traffic, by reason of the increased fares, was anticipated where the fare increase would be 10 percent or less. For increases over 10 percent the estimated diminution ranged from 0.2 percent up to 8.5 percent, this latter figure having been assigned to the Los Angeles-Bakersfield traffic. For the increases in the Los Angeles-San Francisco and Los Angeles-Sacramento fares the estimated diminution factors were 6.4-7.0 percent and 5.5 percent, respectively. In the opinion of the traffic manager the diminution factors developed by the market research manager were reasonable.

With reference to the present and proposed fares between Los Angeles and Bakersfield, the traffic manager pointed out that the special coach fares between these points, as well as between Los Angeles and other points on the San Joaquin Valley route, were based on highway distance, since the competing Santa Fe rail-bus fares were so constructed. The highway distance between Los Angeles and Bakersfield was stated as being 111 miles, while the rail distance is 169 miles. The regular coach fare is based on the latter distance, thus producing the increase proposed between these points of $2.30 or 52.9 percent.

Based on the seven-day sample of Coast Daylight parlor car tickets, an exhibit introduced by the traffic witness shows an estimated annual increase in revenue of $4,348 from the proposed increased round trip parlor car fares. No diminution factor was applied in this instance, on the theory that the class of passengers who use parlor car facilities are not generally concerned about the cost of transportation.

In Decision No. 74832, above, involving the 1968 proposal of Southern Pacific to discontinue the San Joaquin and Sacramento Daylights, the failure of the carrier to make vigorous attempts in recent years to attract passengers to its trains was emphasized. Two steps taken since the issuance of that decision, the traffic manager pointed out, were the placing of adequate supplies of timetables in stations and trains, and the readjustment of train schedules so that direct connections are now possible between the Daylights, on the one hand, and, on the other, the "Cascade" (between San Francisco Bay points and Portland) and the "Sunset" (between Los Angeles and New Orleans). This adjustment, effective in March 1969, also provides a more reasonable departure time for the San Joaquin Daylight from Los Angeles.

The manager of the market research organization testified regarding a study of "Rail Travel and Elasticity of Demand" in the Los Angeles-San Francisco/Sacramento rail service. The company had previously made important studies of air travel and traffic as well as surveys involving all modes of travel, but none specifically directed to rail passenger travel. In the present instance the witness personally instructed two survey takers from a professional survey organization for the purpose of securing various questionnaire data from passengers on the Daylights.

The survey was taken on seven consecutive days, December 6-12, 1968, out of Los Angeles on both the Coast and San Joaquin Daylights. The canvassers rode the northbound trains as far as Santa Barbara and Lancaster, respectively, returning to Los Angeles on the southbound trains the same day. Thus they purportedly obtained questionnaire answers from all through passengers travelling between the San Francisco-Sacramento and Los Angeles terminal areas on the selected days and from a sample of intermediate passengers as well. The seven-day sample embraced 266 through passengers (66 on the Valley train, 200 on the Coast train) and 212 intermediate passengers (90 on the Valley train, 122 on the Coast train).[5/]

In giving their reasons for riding the train that day, the reason most frequently mentioned first, of a number selected, was "prefer the train" (except for the Coast intermediate passengers, who first listed "convenience", more than any other reason). Other reasons given, of relatively high frequency were "scenery", "convenience", "courtesy", and "Do not enjoy flying". Less than 5 percent of any of the four categories of passengers above mentioned cost as a factor in their choice of these trains for travel.

The survey further disclosed that, for the most part, trips on the Daylights during the preceding 12 months had been infrequent, for most passengers only one or two trips per year. With

5/ These totals include only intrastate coach passengers, as being those who would be most concerned with the special coach fares here in issue.

respect to the purpose of the trip, of the through passengers 25 percent on the Coast train and 20 percent on the Valley train were travelling on business. Of the intermediate passengers 11 percent on the Coast train and 34 percent on the Valley train were travelling on business. In all categories the remainder were making the trip for pleasure or other personal reasons.

According to the survey, the following percentages of passengers were 50 years of age or older: through passengers, 57.6 percent on the Valley train and 54 percent on the Coast Daylight; intermediate passengers 38.9 percent on the Valley train and 44.3 percent on the Coast Daylight. A few in each category did not answer this question. On both trains 58 percent of the through passengers were female; of the intermediate passengers 58 percent on the San Joaquin Daylight and 62 percent on the Coast Daylight were female.

The second part of the market research company's study was, according to its manager, an in-depth evaluation of rail passenger characteristics, as developed through the questionnaire data. Additionally, consideration was given to the length of haul, competition and previous hearings before this Commission. As a result of this analysis, the manager developed the following rules for elasticity of demand:

1. For business traffic, diversion due to the proposed fare increases was considered to be nil.

2. For personal and pleasure traffic it was anticipated that there would be no diversion on any route where the proposed fare increase was 10 percent or less.

3. For personal and pleasure traffic it was projected that, for each percentage point of fare increase above 10 percent, there would be a diversion or diminution to the extent of 3/10 of one percent.

The witness stated that the basis for the first numbered rule was fairly obvious. The strongest consideration given in the formulation of the second rule was the showing in the passenger questionnaire survey that cost was an insignificant factor in the reasons given for taking the train. As to the third rule, the progression of 3/10 of one percent diminution for each percentage point of increase was developed by the company in a survey involving rail traffic in the so-called Northeast Corridor, and has been used in other instances where the rail market has been found to be relatively inelastic. After analysis of the Daylight passenger questionnaires and review of prior decisions of this Commission the witness concluded that the progression was appropriate for the Daylight traffic.

The witness had constructed four graphs, one for each of the four categories of Daylight passengers in which the rates of progression were weighted according to the percentage of business travel in each of the categories, as reflected by the passenger questionnaires.

This witness concluded that rail transportation is not competitive in the San Francisco-Los Angeles corridor and that the rail traffic here in issue is relatively inelastic. He stated that the airlines offer 25,000 seats per day, non-stop, between Los Angeles and San Francisco-Sacramento, and carry approximately 15,000 passengers per day in these movements; that the bus companies offer 3,000 seats per day between the same points (but could not say how many of these are occupied); he asserted that by train there are less than 700 seats per day and that normally less than 100 terminal-to-terminal intrastate passengers are carried.

His exhibit showed a comparison of present and proposed rail and air fares. The rail and lowest air fares shown between San Francisco and Los Angeles were $13.15 and $14.18 (including tax), respectively. He stated that if no change were made in the rail fare and the air fare were increased 15 percent as at that time proposed, in his opinion there would be no diversion of traffic from air to rail. (By decisions noted in the margin, the Commission, on July 8, 1969, authorized air lines to increase the above-stated fare to $15.25, including tax.)

Counsel for applicant introduced into the record excerpts from the transcript of the hearings in Application No. 50211, above, being testimony of individuals who were protesting the proposed discontinuance of the Valley Daylight trains. The excerpts were offered to show that in the minds of most of those witnesses, cost was not an important factor in their reasons for using the trains in question.

The associate transportation engineer from the Commission's staff testified concerning a series of exhibits which he had prepared. Among these were comparisons of the present and proposed one-way rail fares with the Western Greyhound fares and lowest available air fares, for representative trips. Also shown were the ratios of the rail fares to those via bus and air.[6/] The bus fares were generally substantially below the rail fares, while the air fares were higher, only slightly, between the main termini, but substantially from and to some of the intermediate points.

6/ In Appendix B, attached hereto, are set forth, between the same points, the present (special coach) and proposed rail fares, the present and proposed bus fares (Application No. 50792) and the lowest present and proposed air fares, including those authorized by the Commission on July 8, 1969 in Decisions Nos. 75897, 75898 and 75899, in Applications Nos. 50888, 50464 and 50847, respectively.

The engineer had prepared a graphic representation showing the history, for some years past, of the fares between San Francisco and Los Angeles via the three modes. The rail and bus fares showed periodic increases, while the air fares have experienced increases and substantial reductions, due to competition between air carriers and to the development of greatly increased capacity of equipment. The graph shows that the lowest available air fare, $11.43 in propellor craft, was lower than the rail special coach fare for a period of three years until September 1968, when propellor craft were withdrawn, and the jet fare of $14.18 (including federal tax) became the lowest air fare. This is to be compared with the rail special coach fare of $13.15 and the bus fare of $10.73 [7/]

The engineer had also developed estimates of diminution percentages which would be experienced if the proposed rail fare increases were authorized. These estimates, particularly as they relate to the movements between the major termini and between Los Angeles and Bakersfield, differ greatly from the corresponding estimates of applicant's witness. For example, between San Francisco and Los Angeles the engineer estimated a loss of 60 percent of the coach traffic as compared with the carrier's estimate of 6.4 percent.

The engineer testified that he had exercised his judgment in assigning diminution factors to the various movements. The factors which he considered in this process were: (1) the percentage of proposed increase in the particular fare, (2) the dollar increase,

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7/ The rail fare here, as well as the fares in Appendices A and B, is shown without the optional reserved seat charge of $1.00, since so few passengers avail themselves of the reserved seat privilege.

(3) the present and proposed relationships of rail fares to the current fares to the competitive modes, (4) the comparative service and convenience of the three modes, and (5) the degree of competition to which applicant is subjected on the particular movement. The diminution percentages which he assigned ranged from zero up to 60 percent.

Applying his diminution factors to the actual traffic in applicant's seven-day sample and similarly expanding the figures to an annual basis the engineer arrived at an estimated reduction in revenue under the proposed fares amounting to $125,477. This figure is broken down into $3,795 for the San Joaquin and Sacramento Daylights and $121,682 for the Coast Daylight. The aggregate figure is to be compared with the carrier's estimate of an increase in revenue of $135,198.90 under the proposed fares.[8/]

The engineer did not make a passenger survey as a part of his study. He said, however, that in making his diminution estimates he was guided by the experience of air carriers operating between the Los Angeles and San Francisco areas who had initiated fare changes of the magnitude proposed by applicant and in part by testimony of public witnesses in the 1968 San Joaquin Daylight discontinuance case.

Notice of hearing was mailed to persons and organizations thought to be interested, including governmental agencies, and was also published in newspapers of general circulation throughout the areas covered by the application. Representatives of the City and County of San Francisco and the City of Los Angeles and an individual appearing in his own behalf assisted in the development of the

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8/ The staff witness also recalculated his exhibit to show what the result would be if he had assumed, for each movement, a diminution factor which was 50 percent of his original estimate. The result was to show approximately the same revenue under the proposed fares as was received under the present fares - no gain or loss.

record through examination of the witnesses. The city attorney of the City of Sacramento presented a resolution of the City Council of that city protesting the proposed increase in coach fares between Sacramento and Los Angeles, and urging that in no event should the fare exceed the lowest air fare between the same points. A second individual, appearing on his own behalf, stated that he used the Daylight services quite often between Los Angeles, on the one hand, and San Francisco, Davis and Sacramento, on the other hand, and that he was opposed to the granting of the application.

In addition to the bus and air fare increase applications heretofore mentioned the Commission takes official notice of the following applications of Southern Pacific: Application No. 50976, in which authority is sought to substitute buses for the Sacramento Daylight (Trains Nos. 53 and 54), filed March 28, 1969; Application No. 51122, filed May 29, 1969, in which authority is again sought to discontinue operation of the San Joaquin and Sacramento Daylights; and Application No. 50822, filed January 16, 1969, in which it is proposed to provide that only one child under six years of age, per adult passenger, may ride free. These applications are all pending now before the Commission.

Objection was made by staff counsel to receipt in evidence of Exhibits Nos. 19, 20 and 22,[9] which were offered by counsel for

9/ Exhibit No. 19 is an excerpt of testimony of the witness Porter in Application No. 40057 (The Greyhound Corporation) and Application No. 40336 (Transcontinental Bus System, Inc.). Exhibit No. 20 is a copy of Exhibit No. 99 in Application No. 40057, being a report of the witness Porter. Exhibit No. 22 is a copy of Exhibit No. 29 of the witness Phillips in Application No. 48692 (Western Greyhound Lines).

Southern Pacific. Ruling thereon was taken under submission. The exhibits are hereby received. In view of this action, a complementary exhibit submitted by staff counsel after the close of the hearings, pursuant to permission granted by the examiner, is hereby also received as Exhibit No. 42. [10/]

At the opening of the hearings counsel for Santa Fe made a statement in which he pointed out that Santa Fe no longer maintains through rail-bus service between Los Angeles and points north of Bakersfield; that its intrastate coach fares between San Francisco on the north and points as far south as Bakersfield are on the same or substantially the same level as the Southern Pacific fares between those points; that the two roads have an optional ticket honoring arrangement in that territory which necessitates a parity of fares between their lines; that, accordingly, if this application is granted, Santa Fe will file for commensurate increases to reestablish that parity.

Before the close of the hearings counsel for applicant stated that, in view of the Santa Fe position, applicant would be willing, because of the small amount of revenues involved, to eliminate any increase in the San Francisco-Bakersfield territory fares at the present time, returning later in a joint application with the Santa Fe relative thereto.

In his argument, staff counsel urged that the Commission deny Application No. 50670 in its entirety. Because of this, the staff offered no alternative proposal for the Commission's consideration, a proposal which would show the estimated effect of rate

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10/ Exhibit No. 42 consists of excerpts from the testimony of the witness Porter in Applications Nos. 40057 and 40336, above, and of certain public witnesses in Application No. 50211 (Southern Pacific Co. - San Joaquin Daylight Discontinuance).

increases, particularly between terminal areas, which would not be as drastic as those sought by applicant. The City and County of San Francisco and the City of Los Angeles both joined the staff in its position that the application should be denied.

The grounds for the staff position are:

1. Southern Pacific has allowed the quality of its passenger service to deteriorate over a period of years. "The reasonableness of rates should not be considered apart from the adequacy of the service and the public should not be charged more than the service is reasonably worth."

2. Applicant has failed to prove its case. The conclusions of the market research witness are erroneous and unreliable, explained in part with his lack of experience with studies in the rail passenger field; there were deficiencies with the passenger questionnaire; no evidence introduced to show whether or not total intrastate operations were conducted at a loss (the staff submitted evidence showing the general financial health and stability of the company); a long line of authority has established that a utility is not entitled to a profit on every aspect of its business.

3. The showing made by the staff witness as to the extremely adverse effect of a 40 percent increase in the Los Angeles-San Francisco fare.

4. Citations from Decision No. 71505, which denied this same proposal of applicant in 1966.

In his argument counsel for applicant argued that (1) the proposed fares have been shown to be within the zone of reasonableness, as recognized by the United States Supreme Court and the Commissions; (2) the proposed adjustment in fares will not cause any substantial hardship on the public; (3) the proposed fares will not adversely affect applicant but will rather favorably affect it; (4) this case should be distinguished from any public convenience and necessity aspects.

Insofar as its principal feature is concerned, the proposal to cancel the special coach fares, this application is identical to Application No. 48196, which was decided by Decision No. 71505 less than three years ago. In that decision the Commission took Southern Pacific to task in strong terms, as it has in other decisions in recent years, for failing to maintain high standards of passenger service and to make vigorous efforts, through advertising and other means, to build up its passenger traffic and to effectively compete with airlines, buses and the private automobile. That failing, as it applied to the trains now involved in this proceeding, was the principal basis for the Commission's denial of Application No. 48196.

More recently, in Decision No. 74832, issued in 1968 in Application No. 50211, above, this failure to upgrade and maintain service standards, as it related specifically to the San Joaquin and Sacramento Daylights, was again spelled out. The record in the instant application discloses that the only improvements which have been made since the issuance of that decision have been in the coordination of schedules of the Daylights, the Cascade and the Sunset so that overnight stops are no longer necessary in Los Angeles or San Francisco, and the providing of adequate supplies of public timetables on the trains and in the stations. In particular, no change in Southern Pacific's policy of not advertising its passenger services has taken place. Without an effective advertising program the carrier cannot expect to build up its passenger business.

With respect to the estimates made by applicant and the Commission's staff respectively of the effect on the carrier's Daylight passenger revenues, if the application is granted, it is hard to imagine more diverse results. Applicant estimates additional annual revenues of $135,199; the staff estimates a reduction in revenues of $125,477. For the most important segment of the involved traffic, between San Francisco and Los Angeles on the Coast Daylight, applicant projects a diminution factor of 6.4 - 7.0 percent; the staff's figure is 60 percent.

The philosophy expounded by the market research witness is largely responsible for the low diversion factors which he assigned to proposed fare increases as high as 39 percent. This is that in the San Francisco area-Los Angeles area market the railroad is simply not competitive with the airlines, for reasons well-known. Those who travel by train constitute a hard-core; they will travel by train regardless of the cost.

In deciding that the diminution scales which had been previously developed in other studies in other parts of the country were appropriate for the Daylights, the carrier witness relied to a large degree on the results of the rail passenger questionnaires. The size of the samples on the two routes was not reassuring, especially when broken down between through and intermediate passengers. Then, the sample of intermediate passengers, particularly on the Valley route, appears far from adequate. No passengers whose origin and destination were both north of Lancaster or north of Santa Barbara were a part of the survey. Again, it appears that reliance upon a survey taken in the early part of December would not give a true picture. A summer survey would probably show, for instance, a higher concern with cost of transportation in family groups traveling on vacation.

The problem of weighing the effects of proposed fare increases in such a complex set of circumstances as is presented in the territory and termini served by the Daylights is undoubtedly difficult, especially when in a highly competitive market substantial increases are proposed, for which no pertinent precedents are available to serve as a guide. And it is probable that the estimates of the staff witness are more pessimistic in many instances than experience with fares increased as proposed would show. However, the disadvantages of rail travel, as compared with travel by air between the terminal areas, dictate that the rail fares should not be higher than the air fares; in fact, that they should be somewhat lower. The rail fares, on the other hand, should be higher than the bus fares between the same points.

Although Southern Pacific has not made substantial improvements in the quality of its Daylight train services, the fact remains that substantial out-of-pocket losses are experienced in their operation. In view of this, some increase in coach fares is justified if additional revenue will result. The special coach fares should not be cancelled, but an increase in those fares of 10 percent, subject to the regular coach fares as maximum, appears to be reasonable, with an exception, hereinafter noted. This record does not provide a reliable basis on which to determine what the effect will be of such increase on the revenues of the trains affected; however, we believe that some increase will be produced. Actual experience will have to determine the specific answer there.

The exception to the 10 percent relates to the Los Angeles-Bakersfield fare. The present fare of $4.35 is based on the direct highway mileage. The rail route is extremely circuitous and not at all competitive. Instead of a fare of $4.79, reflecting a 10 percent increase, an increase to $5.50 appears reasonable.

This is to be compared with the proposed fare of $6.65. The fare of $5.50 should also be authorized to apply between Los Angeles and Bakersfield, on the one hand, and points intermediate thereto, on the other; also between said intermediate points; but not to exceed the present regular fares between the same points. For the representative movements set forth in Appendix B hereof, the approved fares are shown in the column under "Southern Pacific" headed "10 percent increase".

The basis proposed for the round trip parlor car fares has been long established throughout the country for rail passenger round trip fares (180 percent of the one-way fare). That portion of the application should be approved.

We find:

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

2. Southern Pacific Company is financially solvent.

3. The traffic diminution forecasts due to proposed fare increases of applicant and the staff are so extremely divergent, particularly as to the traffic between San Francisco Bay-Sacramento and Los Angeles terminal area as to preclude reliance upon either.

4. Cancellation of the present special coach fares has not been shown to be justified or in the public interest.

5. Increases in the special coach fares, as provided in the order which follows, will be reasonable and justified.

6. The proposed uniform basis for round trip parlor car fares of 180 percent of the corresponding one-way fare is reasonable, and the increases resulting therefrom are justified.

We conclude that Application No. 50670 should be granted to the extent hereinafter provided and that in all other respects it should be denied.

O R D E R

IT IS ORDERED that:

1. Southern Pacific Company is authorized to increase its one-way special coach fares involved in this proceeding by 10 percent, observing the present regular coach fares as maximum, except as provided in ordering paragraph 2.

2. Southern Pacific Company is authorized to increase its one-way special coach fare of $4.35 between Bakersfield and Los Angeles to $5.50, and to increase the present fare between Los Angeles, Bakersfield and intermediate points to that level or to the existing regular coach fare whichever is lower.

3. Applicant is authorized to maintain round trip fares at 180 percent of the increased one-way fares provided by ordering paragraphs 1 and 2.

4. Applicant is authorized to increase its round trip parlor car fares to a uniform basis of 180 percent of the corresponding one-way parlor car fares.

5. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than one day after the effective date hereof on not less than one day's notice to the Commission and the public.

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

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7. In all other respects Application No. 50670 is denied.

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

Dated at San Francisco, California, this 22nd day of JULY, 1969.

William Symons Jr.
President

[illegible]

I will file a concurring opinion

[illegible]

Thomas Moran
Commissioners

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

Appendix A

Present and Proposed One-Way Coach Fares

Between	And	(1) Present	(2) Proposed	Amount of Increase	Percent Increase
Los Angeles	San Francisco	$13.15	$18.27	$5.12	38.9
Los Angeles	San Jose	12.86	16.50	3.64	28.3
Los Angeles	San Luis Obispo(3)	8.66	8.66	-	-
Los Angeles	Santa Barbara(3)	4.04	4.04	-	-
San Francisco	Santa Barbara	12.86	14.24	1.38	10.7
Los Angeles	Sacramento	13.15	17.43	4.28	32.5
Los Angeles	Fresno	7.98	10.82	2.84	35.6
Los Angeles	Bakersfield	4.35	6.65	2.30	52.9
Sacramento	Modesto(3)	3.11	3.11	-	-
Sacramento	Fresno	6.30	6.65	.35	5.6
Sacramento	Bakersfield	9.90	10.85	.95	9.6
San Francisco	Fresno	7.04	7.53	.49	7.0
San Francisco	Bakersfield	10.82	11.73	.91	8.4
Bakersfield	Stockton	8.27	8.97	.70	8.5

(1) Present special coach fare, except as otherwise noted.

(2) Present regular coach fare, which will apply, if special coach fare cancelled.

(3) Present regular coach fare. No special coach fare in effect between these points.

Appendix B

Comparison of Present and Proposed One-Way Fares

Between	And	Southern Pacific			#Air		Greyhound	
		* Present	* Proposed	10 Percent Increase	Present	Proposed	Present	Proposed
Los Angeles	San Francisco	13.15	18.27	14.47	@15.25	-	10.73	11.87
Los Angeles	San Jose	12.86	16.50	14.15	@15.25	-	10.56	11.60
San Francisco	Santa Barbara	12.86	14.24	14.15	21.00	23.10	9.19	10.09
Los Angeles	Sacramento	13.15	17.43	14.47	@17.00	-	10.48	11.51
Los Angeles	Fresno	7.98	10.82	8.78	16.80	18.90	6.18	6.81
Los Angeles	Bakersfield	4.35	6.65	5.50	10.50	12.60	3.36	3.71
Sacramento	Fresno	6.30	6.65	6.65	13.65	15.75	4.90	5.01
Sacramento	Bakersfield	9.90	10.85	10.85	19.95	22.05	7.64	8.41
San Francisco	Fresno	7.04	7.53	7.53	13.65	15.75	5.43	5.97
San Francisco	Bakersfield	10.82	11.73	11.73	19.95	22.05	8.10	8.91
Stockton	Bakersfield	8.27	8.97	8.97	16.80	18.90	6.20	6.82

Includes 5 percent federal tax.

* Does not include reserved seat charge.

@ Authorized on July 8, 1969 by decisions listed in Footnote 6 of this decision.

D 75940, A 50670

COMMISSIONER J. P. VUKASIN, JR., CONCURRING:

There is no valid basis for railroad passenger fares being arbitrarily sandwiched between authorized bus fares and air fares. Such a method of setting rates lacks the sound regulatory principles which should characterize every decision of this Commission.

The record emphasizes that economics are not a prime factor in the selection of the railroad as a mode of passenger travel. The railroad is required by law to perform satisfactory service and in like manner, should be given an opportunity to earn a reasonable rate of return.

The increase in passenger fares granted in this order will still result in a loss to the applicant in its California intrastate passenger operations.

J. P. Vukasin, Jr., Commissioner