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ORIGINAL

Decision No. 87583 July 12, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern Pacific Transportation Company for Authority to Increase Passenger Fares Between San Francisco and San Jose and Intermediate Points.	Application No. 55131 (Filed August 23, 1974; amended January 10, 1975)

(For List of Appearances see Appendix A.)

O P I N I O N

In its original application the Southern Pacific Transportation Company (SP) sought authority to increase passenger fares applicable between San Francisco and San Jose and intermediate points[1] by approximately 111 percent. The actual sought increase in the present level of SP's fares, which reflect a fuel cost adjustment authorized by Decision No. 83419 issued September 11, 1974 in Application No. 54614, amounts to approximately 96.4 percent.[2] The amount of additional annual gross revenues anticipated from the proposed increase is about $3,497,000.

Antecedents

The filing of SP's request for a 111 percent fare increase triggered the following series of events:

1. The Interim Subcommittee on San Francisco Peninsula Rail Commuter Service of the State Assembly Committee on Transportation held a series of public hearings relative to Application No. 55131 during September and October 1974.

1/ Hereinafter also referred to as SP's commute operations.

2/ SP's present San Francisco peninsula fares are set forth in its Local Peninsula Tariff D-No. 5, CPUC No. 20.

2. At the Prehearing Conference held October 10, 1974 the Commission staff advised that its investigation and study would require 14 months.

3. On January 10, 1975 SP requested ex parte authority to increase fares 20 percent pending hearing.

4. On January 30, 1975 the Office of the State Auditor General completed its analysis of SP's 1973 revenue and expense allocations.

5. On August 15, 1975 Price Waterhouse completed its review of SP's 1974 revenue and expense allocations.

6. On March 16, 1976 SP withdrew its request for ex parte interim relief.

7. In June 1976, the staff announced it was ready to present evidence any time after September 15, 1976.

Public hearings were held June 15, 1976 through October 18, 1976 before Examiner Gagnon at San Francisco. The matter was submitted on the latter date subject to the Commission's rulings on a petition for an environmental impact report and a staff motion requesting a Commission order directing SP to make its 1974-1975 federal and state income tax data available for inspection. The SP acquiesced to the staff's request; the motion is now moot. Extensive evidence was introduced by SP, protestants, the staff, and various other interested parties.

SP's Evidence

SP is a wholly owned subsidiary of the Southern Pacific Company and provides rail transportation primarily in the western and southwestern areas of the United States. SP operates a rail system of nine operating divisions comprising approximately 12,000 track miles and related facilities utilized principally for its freight service. The Western Division includes the west coast trackage in California from Sacramento at the north to San Luis Obispo at the south.

SP's passenger service between San Francisco and San Jose, commonly referred to as the West Bay corridor or peninsula, extends over approximately 47 miles of double mainline tracks and serves 24 intermediate points. The general level of service consists of 22 trains operated between San Francisco and San Jose each weekday, with about half that number of trains in service during weekends. The National Rail Passenger Corporation (AMTRAK) operates an intercity service over designated SP tracks under contractual agreement.

The commute operations are conducted with an equipment fleet of 52 suburban cars and 46 gallery (bi-level) cars powered by 23 diesel locomotives. Related switching and routine equipment servicing are performed at San Francisco and San Jose.

An SP vice president testified to the reasons underlying the fare increase proposed in Application No. 55131. He stated that:

> "Southern Pacific's commute service... has suffered substantial losses in past years. . . . Although occasionally different areas of our operations may lose money, the commute service is the chronic loser. When losses do occur, it is management's responsibility to take action to eliminate those losses.
>
> "We believe that commute operations by privately owned railroad companies should provide sufficient revenues to cover costs. If there is a failure of revenues to cover costs, then the service should be reduced accordingly or the service should be owned and operated by a public transit authority. We do not believe that subsidy payments are a solution and would find them unacceptable.
>
> "...we believe that the only way to determine the actual amount of diversion is to place the fares in effect and observe the result." (Emphasis supplied.)

Price Waterhouse & Co.

SP's 1973 adjusted results of commute operations were employed as justification for the originally proposed 111 percent fare increase. The accounting procedures used for developing the 1973 operating results were subjected to severe pre-trial criticism. Such preliminary criticism culminated in the State Auditor General's office conducting a special review of SP's records maintained to support the 1973 adjusted expenses as set forth in the application.

In response to the pre-trial opposition SP engaged the services of Price Waterhouse & Co. (PW) to conduct an analysis of SP's accounting procedures for the commute operations. The results of PW's investigation and study are contained in a summary report (Exhibit 1) with supporting specific analysis provided in related supplementary reports (Exhibits 1-A, B, and C).

The results of PW's review and its recommended adjustments to SP's 1974 results of commute operations are discussed here. It should be noted that SP's and PW's figures endeavor to reflect "fully allocated costs". By contrast, the Commission sets fares for this service on a different basis, that of avoidable above-the-rail expenses. These latter figures are discussed in the section entitled "staff evidence", below. Returning now to PW's "fully allocated costs" presentation, we see:

TABLE 1

Statement Showing PW's Adjusted Results of SP's Commute Operations for the Year Ended December 31, 1974
("fully allocated costs" basis)

Revenues	Amount	%
Passenger ticket sales	$ 5,087,100	90.1%
Imputed pass revenue	428,000	7.6
All other	128,100	2.3
Total revenues	$ 5,643,200	100.0
Operating Expenses		
Maintenance of way and structures	$ 775,600	13.7
Maintenance of equipment	2,155,000	38.3
Traffic	132,500	2.3
Transportation	5,552,400	98.4
General	647,900	11.5
Total operating expenses	$ 9,263,400	164.2
Taxes, other than income	$ 1,513,400	26.8
Interest expense	140,500	2.5
Total expenses	$10,917,300	193.5
Excess of expenses over revenues from commute operations	$ 5,274,100	

In conjunction with its analysis of SP's revenue and expense allocations PW made the following general observations relative to the carrier's accounting practices:

1. Financial Statements
   The SP maintains its general ledger and accounting records in accordance with the uniform system of accounts prescribed by the Interstate Commerce Commission. No separate general ledger is maintained for commute operations. The financial statement of revenues and expenses from commute operations is prepared by the company's Bureau of Transportation Research. Data are compiled from various sources within the railroad, with a majority of the financial input supplied from the

accounting department and with statistical input provided by various operating departments.

Certain operating activities such as maintenance of way and structures and maintenance of equipment, may fluctuate substantially from year to year due to changes in the level of these activities. There were no major nonrecurring programs during 1974 in the area of maintenance of equipment. Construction of the new passenger station in San Francisco, which commenced operations in July 1975, resulted in greater operating expenses in 1974. This construction project resulted in approximately $135,000 of additional maintenance of way and structures expenses and in increased switching and other expenses during 1974. Operations in 1975 may be expected to be charged with similar additional expenses prior to the opening of the new facility, and subsequently, with depreciation of the new facility, which is estimated to be approximately $35,000 annually.

2. Allocation of Common Expenses

SP's peninsula trackage is used for both passenger and freight services to local communities. Commute and freight operations make joint use of most of the mainline trackage and, to varying degrees, the related structures and facilities. Locomotive power utilized for both road haul and switching of commute trains is utilized in freight service to varying degrees. Support services for the commute operations are also performed "off commute line" at locations serving commute and other classes of transportation service, the most significant of which are:

a. Performance of heavy locomotive and car repairs at company shops located in Oakland, Sacramento, and Roseville, California, and at other repair facilities as deemed necessary.

b. Western division administration at the division headquarters in Oakland, California, and at other locations servicing the commute area.

c. System-wide administration of commute related activities in the various administrative departments of the railroad at the general offices in San Francisco, such as traffic, operating, mechanical, engineering, accounting, data processing, and other administrative departments.

3. Maintenance and Depreciation

Replacement accounting, as approved by the Interstate Commerce Commission, is used for certain roadway properties (rail, ties, ballast, etc.). Under this method, the cost of replacements in kind and of losses on retirements are charged to maintenance of way and structures expense in lieu of depreciation.

The composite depreciation method is used for depreciating all equipment. Under this method, the estimated average useful life of equipment is used to determine depreciation rates. No gain or loss is recognized on disposition of equipment.

All depreciable properties are depreciated using the straightline method.

4. Inventories

Fuel is charged to expense based upon average monthly purchase price. Materials and supplies are charged to expense at approximately the most recent purchase price. The expense of rebuilding spare parts is reflected in the expenses from commute operations at the time the rebuilt parts are used.

5. Internal Financing
No charge for intracompany financing, including financing of such items as working capital, deficit, and capital investments, has been reflected in the statement of revenues and expenses from commute operations. In essence, the statement reflects no return on the company's investment. No provision for income tax benefits resulting from the excess of expenses over revenues from commute operations or from investment tax credits generated by commute related qualified property has been reflected.

In Section III of the summary report PW determined SP's net investment in certain major commute assets as of December 31, 1974 to be:

TABLE 2
SP's Investment In The Peninsula Passenger Service

	Total	Commute %	Commute Amount
Roadway			
Tracks and right-of-way	$ 9,002,100	44.8%	$ 4,032,700
Passenger car yards	3,490,700	100.0	3,490,700
Buildings - stations	1,113,400	(1)	852,000
Maintenance facilities and fueling stations	2,476,900	(2)	535,400
Parking lots	112,300	100.0	112,300
Construction in progress	1,553,600	100.0	1,553,600
	$17,749,000		$10,576,700
Equipment			
Road locomotives	$ 5,787,100	(3)	$ 4,690,700
Passenger cars	9,627,300	100.0	9,627,300
	$15,414,400		$14,318,000
	$33,163,400		$24,894,700
Less Accumulated Depreciation			
Roadway			$ 1,106,400
Equipment			7,509,600
			8,616,000
Net roadway & equipment			$16,278,700
Liabilities			
Equipment trust certificates			$ 2,429,200
Net investment in certain commute assets			$13,849,500

(1) Various, based upon square footage of each station used for commute operations.

(2) 17.8% for Bayshore and 33.0% for San Jose based upon commute direct labor hours charged.

(3) Each class of commute locomotive is allocated based upon unit mileage in commute service to total unit mileage for the commute locomotives.

Road properties shown in Table 2 acquired prior to June 30, 1916 are stated at amounts determined by the Interstate Commerce Commission to represent approximate original costs. Subsequent additions and other properties are stated at cost and allocated to commute operations as indicated. Only property located in the West Bay corridor involved in commute service is reflected in Table 2. Equipment specifically assigned to commute service does not include equipment repair facilities outside the West Bay corridor or work equipment, switch engines, etc., partially utilized in commute operations.

In Exhibit 1-C (Appendix III) PW lists several general and specific recommendations designed to improve SP's accounting procedures. Most of PW's recommendations have either been totally or partially adopted by SP and are now or will be in the near future implemented.

SP Commute Traffic

To evaluate the volume and growth of the potential commuter market an SP witness presented the 1950-1970 U.S. census, plus a January 1, 1976 estimate of the population residing in various peninsula communities considered to be within SP's commuter service area. A summary of the census follows:

TABLE 3

Year	Including San Francisco		Excluding San Francisco	
1950	1,121,090	100%	345,733	100%
1960	1,509,734	135	769,418	223
1970	1,940,860	173	1,225,186	354
Jan. 1, 1976	2,056,960	184	1,381,360	400

With the dramatic growth in population within the West Bay corridor one might reasonably expect SP to experience a like growth in its commuter traffic. Unfortunately, such a desirable result did not occur as more specifically shown in Table 4.

TABLE 4

SP Passengers (Rides Sold)
Carrier - San Francisco Peninsula

Year		Total Passengers	± %	Year	Total Passengers	± %
1951		8,161,725	+ 3	1973 (6)	5,385,584	- 1
1952	(1)	9,200,623	+13	1974 (7)	5,523,185	+ 3
1953		8,719,615	- 5	1975 (8)	4,719,679	-15
1958		7,462,045	- 7	1976 v. 75		
1963		6,336,523	- 0.3	Jan.	395,750	-12
1966	(2)	6,893,130	+ 3	Feb.	349,773	- 8
1970	(3)	5,825,553	- 5	Mar.	407,525	- 0.02
1971	(4)	5,483,762	- 6	Apr.	345,841	-17
1972	(5)	5,439,053	- 1			

(1) 1952 - Greyhound strike March 1 - May 20.
(2) 1966 - Greyhound strike May 15 - June 25.
(3) 1970 - July 7 UTU (fireman) strike; September 15 Teamsters (PMT) December 10 four yard unions.
(4) 1971 - May 17-18 signalmen strike; July 24 - August 2 United Transportation Union strike.
(5) 1972 - March 10 (herders) strike.
(6) 1973 - BART Daly City service commenced November 5.
(7) 1974 - Fuel crisis first 5 months; Muni Ry. strike March 8-15, pickets also closed down BART service; AC Transit strike July & August; BART Trans-Bay service commenced September 16; Greyhound strike November 18-25.
(8) 1975 - Recession affected traffic to some extent. October 17 work stoppage by railway clerks - commute service not operated.

Rate Increases
10/07/70 - 5% general fare increase.
12/18/71 - 10% general fare increase.
10/25/73 - 6% offset increase to recoup from railroad retirement tax change.
12/22/73 - 11% general fare increase.
9/18/74 - 8% offset increase account rise in cost of fuel.

Table 4 shows that SP has experienced a general decline in commuter traffic over the past 25 years. This decline is well analyzed and documented in the staff's traffic and diversion study in this proceeding. (Exhibit 32).

With the advent of multi-lane freeways such as U.S. 101 and 280 (September 1973) in the West Bay corridor, plus the introduction of compact and intermediate size automobiles and vans, the private or pool-car type of commutation became available to most of SP's patrons. We must nevertheless note SP's complete lack of promotion or advertising of its Peninsula passenger service (except for one brief advertising campaign in response to an Order of this Commission). It is well known that the successful operation of nearly any business, including public transit, generally involves advertising and promotion of new patronage. Other private corporations, including transportation companies, advertise regularly in the various public media and promote their products and services through direct promotional campaigns. SP's failure to effectively market its passenger service is, therefore, even more glaring, and is likely responsible in good measure for SP's declining patronage in this market.

SP's Present and Proposed Fares

The existing fare structure for SP's commute operations was established by Decision No. 82242 dated December 7, 1973 in Application No. 53666. The fare structure was then adjusted to reflect a railroad retirement tax offset fare increase of 6 percent previously authorized by Decision No. 82004 dated October 16, 1973 in Application No. 54267. By Decision No. 83419 dated September 11, 1974 in Application No. 54614 SP was authorized a fuel cost offset fare increase of approximately 8 percent. The fares established pursuant to this latter decision on September 18, 1974 are currently in effect.

A comparison of SP's present and proposed fares is set forth in Appendix B. Endeavoring to demonstrate that a 96.4 percent fare increase is justified, the "fully allocated costs" of SP's 1974 commute operations developed by PW (Table 1) were first adopted as the base rate year. The base rate year expenses were then indexed to April 1, 1976 levels. The adjusted results are:

TABLE 5

SP's Estimated 1974 Adjusted Results of Commute Operations Under Present Fares and Expenses Indexed to April 1, 1976
("Fully Allocated Costs" basis)

Description	Current Results		Year 1974	Increase (Decrease) Amount	Percent
Revenues					
Passenger 1/	$ 4,558,200	2/	$ 5,087,100	$ (528,900)	(10.40)%
Station	44,500	3/	52,800	(8,300)	(15.72)
Parking	63,700	2/	74,500	(10,800)	(14.50)
Total revenues	$ 4,666,400		$ 5,214,400	$ (548,000)	(10.51)%
Expenditures					
Indexed expenses & taxes	$12,011,800		$10,045,000	$ 1,966,800	19.58% 6/
Advertising program	-		85,900	(85,900)	(100.00)
Personal injuries (direct)	385,000	2/	9,800	375,200	- 4/
Depreciation, MofW&S	120,500	5/	89,100	31,400	35.24
Depreciation, MofE	530,500	5/	547,000	(16,500)	(3.02)
Equipment rents	49,100	2/	Cr. 800	49,900	- 4/
Equipment trust interest	172,500	5/	140,500	32,000	22.78
Total expenditures	$13,269,400		$10,916,500	$ 2,352,900	21.55%
Net Profit or (Loss)	$(8,603,000)		$(5,702,100)	$(2,900,900)	50.87%

1/ Excluding constructive pass revenue.
2/ Actual for 12 months ending March 31, 1976.
3/ Annualized total based on 6 months ending March 1976.
4/ More than 100%
5/ Actual as of April 1, 1976.
6/ Index of commute expenses to April 1, 1976:

	Amount Year 1974	Percent of Total	Percent Increase	Weighted Increase
Labor	$ 6,329,000	63.01	20.96	13.21%
Health & welfare	355,800	3.54	39.43	1.40
Federal payroll tax	1,002,500	9.98	19.66	1.96
City payroll tax	16,800	.17	10.00	.02
Fuel, train, and yard	505,600	5.03	25.81	1.30
Other material	754,100	7.51	22.54	1.69
Other expenses	587,000	5.84	-	-
Other taxes	494,100	4.92	-	-
Total	$10,045,000	100.00		19.58%

The SP's estimated results of commute operations under the proposed fares, again based on its "fully allocated costs" theory, are:

TABLE 6

SP's Estimated 1974 Adjusted Results of Commute Operations Under Proposed Fares and Expenses Indexed to April 1, 1976
("Fully Allocated Costs" basis)

1. Effect on Passenger Revenues

Description	Ridership Level 1974		Ridership Level Current	
Passenger revenues	$5,087,000	$5,087,000	$4,558,000	$4,558,000
Predicted ridership loss (2)	0.0%	20.4%	0.0%	20.4%
Retained passenger revenues	$5,087,000	$4,049,000	$4,558,000	$3,628,000
Proposed fare increase (96.4%)	4,904,000	3,903,000	4,394,000	3,497,000
Total expected passenger revenues	$9,991,000	$7,952,000	$8,952,000	$7,125,000
Net increase in passenger revenues	$4,904,000	$2,865,000	$4,394,000	$2,567,000

2. Estimated Adjusted Results of Operations

Passenger revenues (1)	$ 9,991,000	$ 7,952,000	$ 8,952,000	$ 7,125,000
Station	52,800	52,800	44,500	44,500
Parking	74,500	74,500	63,700	63,700
Total revenues	$10,118,300	$ 8,079,300	$ 9,060,200	$ 7,233,200
Total adj. expenses	10,916,500	10,916,500	13,269,400	13,269,400
Net profit or (loss)	$ (798,200)	$(2,837,200)	$(4,209,200)	$(6,036,200)

(1) Excluding constructive pass revenue.

(2) Predicted Ridership Loss

Percent Fare Increase	Ridership Percent Loss Fare Zones 1-3	Fare Zones 4-6	Average
10	4.0	5.2	4.5
20	7.1	9.1	7.9
30	9.6	12.1	10.6
40	11.7	14.6	12.8
50	13.3	16.6	14.6
75	16.5	20.4	18.0
100	18.8	23.0	20.4

Under the proposed fares, SP contemplates it will continue to experience operating losses amounting to $6,036,200. This anticipated operating deficit is $334,100 greater than the like operating loss incurred for the year ended December 31, 1974 (Table 5). With no allowance provided for predicted ridership loss due to the fare increase, it is estimated that the net operating loss would be reduced to $4,209,200 or $1,492,900 less than experienced for the year 1974. It is contended that the 96.4 percent fare increase will be productive revenuewise, despite a 20.4 percent predicted ridership loss, because without such an increase the commute service is expected to incur a net operating loss of some $8,603,000.

Notwithstanding these showings, it must be noted that suburban railroad fares have historically been set not on the basis of "fully allocated" expenses but rather on an "avoidable above the rail" expense basis, which will be considered under the discussion of staff evidence, below.

Southern Pacific presented a diversion model, set forth on Table 6, which predicts only a 20.4 percent diversion of SP passengers in response to a doubling of the train fares. It predicts this seemingly very low value of diversion and never predicts a more substantial diversion no matter how high the fares might go. While in fairness, it must be noted that SP stated its model is intended to predict diversion for fare increases of only the magnitudes under consideration in this proceeding, SP's model nevertheless does not appear to predict reasonable values of diversion for larger fare increases in light of the other models offered by the staff and the Assembly Office of Research, and the availability of alternative transportation at costs below what it would cost to ride SP if its fares were to be raised so greatly.

The results of SP's studies of the comparative daily costs per person to commute between San Francisco and various Peninsula communities via the SP or by private auto (subcompact, compact, or standard) are presented in Exhibits 4, 5, and 6. The exhibits show that the daily cost per person to commute by private auto is generally higher for one person per car than the related daily commute costs via the SP at both present and proposed fares. When two, three, or four persons ride in a single car, the daily commute cost per person via the SP is generally higher at proposed fares than the related daily cost per person by private auto. At present fares, the daily commute cost per person via the SP are both higher and lower than the like commute cost by private auto depending upon the number of passengers in excess of one riding per car.

In Exhibit 24, SP presented a comparison of daily commute costs via SP at the proposed level of fares with the like daily costs per person (including the value of "dual purpose time foregone") when commuting by a private subcompact automobile. The comparison suggests that the daily cost per person to commute via SP at the proposed level of fares is significantly less than the like daily costs incurred by a person commuting by private subcompact automobile when the value of his personal time foregone to commute privately is included. This concept of "dual purpose time foregone" was subsequently refuted by the staff.

Several comparisons of SP's present and proposed fares with the like fares of other public and private utility transit systems were presented. One such comparison shows that the general level of SP's present fares is lower than the level of comparable fares applicable within several of the eastern metropolitan areas of the United States. Two other similar comparisons were made showing the present monthly costs to commute by Greyhound Lines, Inc. (Greyhound) or the Bay Area Rapid Transit District (BART) with the related monthly costs to commute via SP at present and proposed fares. The Greyhound comparisons are summarized in Table 7.

TABLE 7

Monthly Costs to Commute by SP Versus Greyhound Lines, Inc.

Between San Francisco And	Greyhound 20-Ride X 38.-Trips*	Greyhound 20-Ride Exceeds Present SP 5-Day Monthly By*	South Pacific 5-Day Month Present	South Pacific 5-Day Month Proposed
South San Francisco	31.05	15%	$27.00	$52.25
San Bruno	32.87	21.7%	27.00	52.25
Millbrae	32.87	21.7%	27.00	52.25
Broadway	36.42	15.6%	31.50	61.25
Burlingame	36.42	15.6%	31.50	61.25
San Mateo	38.23	21.4%	31.50	61.25
Hayward Park	38.23	21.4%	31.50	61.25
Hillsdale	38.23	6.2%	36.00	70.25
Belmont	41.78	16.1%	36.00	70.25
San Carlos	41.78	16.1%	36.00	70.25
Redwood City	41.78	16.1%	36.00	70.25
Atherton	45.36	12%	40.50	79.25
Menlo Park	45.36	12%	40.50	79.25
Palo Alto	48.94	20.8%	40.50	79.25
California Avenue	48.94	20.8%	40.50	79.25
Mountain View	54.45	21%	45.00	88.00
Sunnyvale	58.13	29.2%	45.00	88.00
Santa Clara	61.72	27.3%	48.50	95.00
San Jose	65.29	34.6%	48.50	95.00

*Adopting the staff's factor of 38.6 trips per month to better reflect actual use of average commuter.

The present monthly cost to commute by Greyhound between San Francisco and various Peninsula communities is shown in Table 7 to exceed the present related cost to commute via SP in all instances by 6.2 to 34.6 percent, averaging less than 25 percent. This is clearly far below the magnitude of fare increase requested by SP in this application.

Under BART's one-way fares, the resulting monthly cost exceeds the like cost via SP at present fare levels in all instances, similarly. And, as in the case with Greyhound, the monthly cost to SP commuters at SP's proposed fares would substantially exceed the current comparable monthly cost via BART.

The percentage relationship between fare box passenger revenues and total operating expenses of several local transit agencies was also compared with the like experience of SP. A summary of this comparison is:

TABLE 8

Comparison of Percentage Relationship Between Fare Box Passenger Revenues and Total Operating Expenses of Local Transit Agencies and SP for Years 1974 and 1975

Transit Systems	Passenger Revenues as a Percent of Total Operating Expenses	
	1974 (Actual)	1975 (Estimated)
Alameda-Contra Costa Transit District (AC)	51	34
Bay Area Rapid Transit District (BART)	18	29
Golden Gate Bridge, Highway and Transportation District	53	56
SP - Commute Service *	50	-

*Note: Based on SP's "fully allocated costs" basis. The corresponding value using the railroad's avoidable above-the-rail costs would be substantially more favorable.

Environmental Impact

As a State agency, the Commission is subject to the provisions of the California Environmental Quality Act (CEQA) and the CEQA guidelines adopted by the Office of the Secretary for Resources. The Commission's compliance with CEQA and the guidelines is set forth in Rule 17.1 of the Commission's Rules of Practice and Procedure. The Commission policy stated in Rule 17.1(a)(1) is:

> "It shall be the general policy of the Commission to adopt and adhere to the principles, objectives, definitions, and criteria of CEQA and of the Guidelines promulgated thereunder in its regulations under its constitutional and statutory authority."

Pursuant to a Commission Order Instituting Investigation into a method of compliance with CEQA we concluded that:

> "...the policy provisions of CEQA (§§ 21000, 21001) apply to rate proceedings but the EIR provisions of (§§ 21100 et seq.) do not. The Commission will consider potential environmental impact in rate matters. When such issues are brought to light by the staff or other parties, appropriate findings will be made thereon. (Pub. Util. Code § 1705)" 4/

The Memorandum of Prehearing Conference issued by the assigned examiner in this proceeding announced that environmental data will be received. Accordingly, SP engaged the services of Reta/Nolte and Associates, Inc., a firm of consulting environmental engineers, to conduct studies required to determine the environmental impact of SP's fare proposal with respect to changes in traffic, air and water pollutants, noise, and fuel consumption. The results of the consultant's study are set forth in SP Exhibit 19.

The objective of the study was to provide a comprehensive environmental impact assessment, concentrating on effects of the assumed diversion of SP's passengers to other modes of

4/ Decision No. 81237, 75 CPUC 134.

transportation. The basic study approach was to determine existing conditions and to forecast future conditions resulting from SP's passenger diversion, then compare the two in analyzing the impact of the diversion.

The West Bay commute corridor was taken to consist of SP's commute passengers and vehicular (auto and bus) traffic on Freeways 101 and 280 from San Jose to downtown San Francisco. Passengers diverted from SP were assumed to transfer to private vehicles (single and carpool) or one of several bus alternatives. The environmental impacts from these commute changes were analyzed.

Since an exact estimate of the passenger diversion associated with a particular fare increase is difficult to quantify, each environmental criterion was analyzed and forecasted on the basis of an assumed total diversion of SP's commuters. The projected effects of other magnitudes of diversion were obtained by using appropriate percentage factors.

For most criteria the impact of total diversion is negligible and smaller magnitudes of diversion cause proportionately smaller effects. A summary of the individual environmental analyses, as presented in Section IV of the report follows:

1. Traffic

   The results of the traffic study show that diversion of all commuters would increase average daily traffic (ADT) in amounts ranging from 3.0 percent to 6.2 percent on Route 280 and from 0.8 percent to 17.9 percent on Route 101. The more critical parameter, peak hour traffic, is estimated to increase (at total diversion) in amounts ranging from 14.5 percent to 23.1 percent on Route 280 and from 6.3 percent to 17.9 percent on Route 101. The large increases (at total diversion) in peak hour traffic on Route 280 at Route 92 where the large increase occurs) are not indicative of a significant impact on service level because there is adequate

capacity to serve the current and total diversion traffic in this area. The most significant traffic impact occurs on both freeways in areas in which peak hour traffic is already at capacity and the diversion would result in substantial increases in peak hour volume. The most important such segments occur on both freeways north of the San Francisco County Line. In these segments, the impact of total commuter diversion would be to aggravate stop-and-go (unstable traffic flow) operations during peak hours, and a spilling over of excess traffic into the hour following peak traffic, adding to congestion and delay.

2. Noise

The noise analysis results showed that the commuter diversion would not raise the 1975 noise level by more than a fraction of a decibel on Route 280 or 101, which will not be perceived by receptors along the highway routes. The analysis was performed in accordance with the National Cooperative Highway Research Program's Report 117 Handbook method, used by the federal highway administration and approved by EPA.

3. Water Quality

The results of the water quality analysis indicated that the percent increase in water pollutants from highway runoff from the diversion would be insignificant, ranging from 0.5 percent to 1.86 percent for all water pollutants considered. The analysis was based on the EPA report, Contributions or Urban Roadway Usage to Water Pollution.

4. Air Quality

The results of the air quality analysis showed that ambient air quality was not degraded significantly. Air pollution emissions along Routes 280 and 101 were found to increase by no more than two percent of existing traffic-generated

emissions along Routes 280 and 101, and the average increase was determined to be approximately one percent. The increase was also found to be less than 0.1 percent of total emissions for San Francisco, San Mateo, and Santa Clara Counties. The analysis was performed using data and methodology approved by the Bay Area Air Pollution Control District.

5. Fuel Consumption

The impact of the diversion on fuel consumption was determined to be insignificant since gasoline consumption would increase by only 0.3 percent in San Francisco, San Mateo, and Santa Clara Counties. In addition, reduced fuel consumption by SP, as a result of the passenger loss, would further reduce this figure.

6. Conclusions

The noise, air, water quality, and fuel consumption impacts caused by SP commuter diversion were found to be negligible, but they are all important, particularly when considered on a cumulative basis. The increase in peak hour traffic is the most significant impact created by commuter diversion. This effect, which varies directly with the percent of commuter diversion, is of concern only at freeway zones in which existing peak hour traffic is already at capacity.

Staff Evidence

The Commission's Finance and Accounts Division (F&A) and Transportation Divsion presented a series of staff studies in response to SP's proposed fare increase.

The F&A staff reviewed in considerable detail PW's work papers for its "fully allocated costs" report (Exhibit 1). According

to the staff's analysis of the $10.9 million in 1974 expenses developed by PW, only $4.7 million is direct commute expenses, while $3.0 million is derived from allocating systemwide expenses, and $3.2 million is derived from allocating other company expenses.

SP adopted the PW 1974 adjusted results of commute operations as the base rate year for demonstrating estimated results of operations under present and proposed fares with expenses indexed to April 1, 1976 (Tables 5 and 6). The staff questioned SP's failure to employ the 1975 adjusted results of commute operations which had assertedly been developed by SP based primarily on PW's recommended methodology. The staff correctly observes that a base rate year should be a recent year that has been critically reviewed and verified to be a normal test year. While the PW's 1974 adjusted results of commute operations assigned a pro rata share of total SP system expenses to the commute operation under fully allocated cost procedures, the F&A staff contend that, standing alone, such procedure does not guarantee consistent reasonable results when used to separate less than one percent of the total system expenses assignable to the commute operation. An F&A staff comparison of the 1974 and 1975 adjusted results of commute operations, utilizing SP's "fully allocated" theory, follows:

TABLE 9

Estimated Results of Commute Operations for Years Ended December 31, 1974 and 1975 and as of April 1, 1976
("Fully allocated costs" basis)

Item	1974[1]	1975[2]	Est. Current Results[3] April 1, 1976
Revenues			
Passenger ticket sales	$ 5,087,100	$ 4,630,700	$ 4,558,200
Imputed pass revenue	428,000	428,000	-
All other	128,100	113,400	109,600
Total revenues	$ 5,643,200	$ 5,172,100	$ 4,667,800
Operating Expenses			
Maintenance of ways and structures	$ 775,600	$ 903,000	$ 1,058,900
Maintenance of equipment	2,155,000	2,264,600	2,479,300
Traffic	132,500	48,300	55,200
Transportation	5,552,400	6,430,400	7,006,700
General	647,900	993,200	733,800
Subtotal	$ 9,263,400	$10,639,500	$11,334,400
Less: Nonrecurring[4]	(340,200)	(558,200)	-
Total operating expenses	$ 8,923,200	$10,081,300	$11,334,400
Taxes, other than income	$ 1,513,400	$ 1,621,800	$ 1,712,200
Interest expense	140,500	168,200	172,500
Rental for locomotives	-	56,700	50,300
Total expenses	$10,577,100	$11,928,000	$13,269,400
Net loss from commute operat.	$ 4,933,900	$ 6,755,900	$ 8,601,600

1/ Price Waterhouse less nonrecurring expenses.
2/ Reported 1975 adjusted by staff.
3/ PW indexed to April 1, 1976 - unadjusted by staff.
4/ The staff recommends that 1974 and 1975 PW adjusted results of operations be further revised for nonrecurring expenses as follows:

Item	1974	1975
Total expense per PW	$10,917,300	$12,486,200
Less: Depreciation expense on fully depreciated locomotives	(117,800)	(101,300)
Nonrecurring expenses:		
Relocation of S.F. passenger station and yard.	(135,400)	(235,300)
Advertising	(86,000)	-
Cost of PW study and report	-	(221,600)
Total expenses less adjustments	$10,577,100	$11,928,000

If F&A's proposed adjustments for nonrecurring expenses are adopted SP contends that PW expenses for ties, rails, and personal injuries should also be revised to reflect an established normalized annual basis. The F&A proposed adjustments for nonrecurring expenses have merit provided the expenses are annualized as recommended by SP. The net effect of F&A's and SP's suggested adjustments to PW's 1974 and 1975 adjusted results of commute operations are largely offsetting. Again, it is noted that passenger fares for this service have historically been set on an avoidable above-the-rail basis instead of on "fully allocated costs".

SP states that its 1975 system freight operations reflect a recession year while the peninsula commute service remained rather stable. Any efforts to separate less than one percent of the total 1975 system expenses assignable to the commute service would make the resulting commute expenses vulnerable to the staff's admonition of "grave distortions". SP contends that the PW 1974 adjusted results of commute operations represents a reasonable normal test year. For this reason the 1974, in lieu of available 1975, adjusted results of commute operations were employed by SP as the base rate year for its calculations.

The Transportation Division staff developed the avoidable above-the-rail costs of SP's commute service for a constructed 1975 test rate year as follows:

TABLE 10

Staff Estimate of the Avoidable Above-the-Rail Results of SP's Commute Operations for a Constructed 1975 Test Year

Description	Amount
Revenues	
Passenger ticket sales	$ 4,630,700
Station revenue	44,500
Parking	63,700
Equivalent pass revenues	453,700
Total revenue	$ 5,192,600
Expenses	
Maintenance of way and structures	$ 99,600
Maintenance of equipment	1,403,400
Traffic	88,300
Transportation	5,312,700
General	-
Taxes	144,800
Total expenses	$ 7,048,800
Profit or (Loss) Before Taxes	$(1,856,200)

The passenger revenue shown in Table 10 is computed from the 1975 ticket sales. The total passenger revenue shown in Table 10 compares favorably with the April 1, 1976 passenger revenues employed by SP (Table 6). The station revenue of $44,500 reflects SP's annualized total based on actual revenues for a six-month period ending March 1976. Similarly, the parking revenues represent 12 months' actual experience for the period ending March 31, 1976 (SP Exhibit 21). In developing the commute expenses for the test year emphasis was placed on labor and allied payroll expenses since such items comprise about 76.7 percent of the total expenditures. Labor expenses were predicated upon effective labor agreements and a constructed number of SP employees whose activities were in varying degrees assignable to the peninsula commute operations. (Decision No. 82242 dated December 7, 1973 in Application No. 53666.)

The staff's 1975 test year shows that the avoidable above-the-rail expenses for SP's commute operations amount to $7,048,300 which, in turn, exceeds estimated total revenues by $1,856,200. These are before-tax figures; the effect of income taxes is to reduce the loss considerably, as shown elsewhere in this decision.

Staff Alternative Fare Proposal

The Commission's Transportation Division staff recommends that SP be authorized a 25-percent fare increase. The staff's proposal is conditioned upon SP's maintenance of the present level of commute service and will afford public transit agencies time to implement their plans.

The staff's results of commute operations for a constructed 1975 test year (Table 10) do not include all the expense items classified as "avoidable costs" as that term is used by the I.C.C. Nevertheless we observe that the staff's presentation properly incorporates "avoidable above-the-rail" principles upon which fares are properly set for this service. However, SP developed from staff workpapers that $509,000 of direct labor was omitted from the staff's test year computations.

The operating deficit of $1,856,200 computed by the staff for a constructed 1975 test year should be adjusted to include omitted labor costs of $509,000. Inclusion of SP's additional proposed adjustments to these figures is not justified in this proceeding since that would, in effect, constitute adoption of a completely new basis for fare determination for this service. SP has not established on this record sufficient or substantial reason to change from the historical "avoidable above-the-rail costs" basis by which its passenger fares, including those presently in effect, are set. To the contrary, the traditional methodology gives proper weight to the true costs of the SP of the continued operations of its passenger service in this market under the present circumstances, and should accordingly be maintained.

The staff presented considerable evidence concerning the diversion of patronage that might reasonably be expected to occur in response to various levels of SP fare increases. Several models were offered, reflecting a great deal of experience with passenger diversions associated with fare increases. A new diversion model was offered based on SP's data but predicting different values of diversion than those predicted by SP. The difference is that, as explained by the staff, a proper analysis must reflect the knowledge that is known about the system under study. Here it is obvious that fewer people will ride the train the higher the fares are raised, and nobody at all would ride if the fares reached, say, $10,000 per month per passenger. It is also clear that most passengers would leave the train much sooner,

prior to fares reaching such a high figure, and at all events a proper diversion model should predict zero riders (total diversion) at infinite fares, and relatively few passengers at very high fare levels. The staff diversion model based on SP's data successfully reflects this knowledge about the system, whereas SP's own model does not. Indeed, as pointed out by the staff, SP's model would predict that several thousand people would still ride the train at a $10,000 fare, which is an absurd result. Although SP endeavored to preserve its model by stating that is was intended to apply only to fare increases of the magnitudes under consideration in this proceeding, these matters still render the validity of SP's model suspect in its conception, and particularly its diminution predictions for larger fare increases, that is, those substantially beyond the previous fare increase experience of the company for which diminution estimates are, of necessity, primarily projections rather than interpolations of known data.

Public Transit Agencies

Pursuant to Sections 730.3 and 730.5 of the Public Utilities Code a filing notification of Application No. 55131 was mailed on February 5, 1976 to the various transit agencies involved. Representatives from the State Metropolitan Transportation Commission (MTC), San Mateo County Transit District (SamTrans), Santa Clara County District, and the City and County of San Francisco (Muni), actively responded to the Commission's invitation to participate in this matter.

There is a unanimity of opposition among the public transit agencies to SP's proposed fare increase. There is also general agreement that any adjustment in SP's fares should be deferred until at least a public transit plan for the West Bay corridor has been completed and submitted to the State Legislature for approval. It is asserted that any other course of action might have a serious adverse impact upon actual and potential ridership within the corridor before the transit agencies have had an opportunity to implement their plans.

A project director for MTC introduced a series of exhibits pertaining to mass transit plans for the San Francisco peninsula. MTC's Exhibit 26 contains excerpts from SB 283 dated January 27, 1975 which provides:

> "Sec. 14(a) The Metropolitan Transportation Commission shall conduct a study on alternative forms of transit development within the West Bay Corridor . . . . The study shall be directed to determine the feasibility of:
>
> "(1) Upgrading the Southern Pacific Transportation Company's commuter service to a transit service level.
>
> "(2) Extending the San Francisco Bay Area Rapid Transit District's service from Daly City to San Jose.
>
> "(3) Extending the San Francisco Bay Area Rapid Transit District's service to the San Francisco International Airport and upgrading the Southern Pacific Transportation Company's service from Millbrae to San Jose.
>
> "(4) Implementing other transit alternatives.
>
> "(b) The commission shall submit a report on its study to the Legislature not later than January 1, 1977."

In response to the Legislature's directive the MTC activated a Peninsula Transit Alternatives Project (PENTAP). A list of approximately 25 preliminary transit alternatives were developed by MTC. We understand that the list was subsequently reduced to five transit plans, one of which, having been recommended to the Legislature for approval, provides:

Alternative B

1. Improvement of the SP service as the principal element of corridor transportation including:
   (a) Improvement in schedule reverse peak hour service (southbound a.m. and northbound p.m.) and service to peninsula stations.
   (b) Modest off-peak schedule improvements.
   (c) Modest improvements to stations and parking facilities.

   All improved service should be operated by the SP under a purchase of service or other agreement; airport connection to be provided by shuttle bus.
2. Retention of the present terminal location in San Francisco at 4th and Townsend Streets but provision for improved collector/distributor service with buses serving major destination areas in San Francisco.
3. Provision for supplemental express bus service on Highways 280 and 101 using "trunk and branch" operations serving peninsula communities, San Francisco and San Jose airports, and San Francisco.
4. Provision for improved facilities for bus movement on Highway 101 from Highway 380 north to Highway 280, either through construction of additional lanes for high-occupancy vehicles within existing right-of-way or designation of existing lanes as bus-preferential lanes.
5. Inclusion of direct bus access ramps to the Transbay Terminal in any future connection of Highway 280 from 3rd Street to the Bay Bridge.
6. Coordination of corridor service with the local transit systems in Santa Clara and San Mateo Counties to insure adequate feeder service and to meet the needs of the transit dependent population.

7. Provision for public acquisition of the 3.4 mile segment of SP right-of-way at the north end of San Bruno branch if SP is successful in its current application for service abandonment.

Representatives from SamTrans expressed an urgent desire to conduct negotiations with SP relative to developing a mutually satisfactory joint program to implement transit plans to the extent that they involve SP's commute service. Such negotiations would include an arrangement to provide SP with whatever subsidy was shown to be justified. SamTrans feels that various forms of subsidy appear open to negotiation, but a form of purchase service agreement appears to be most feasible.[6/]

SP's current position is that a subsidy, in any form, is totally unacceptable. To date, SP is willing to discuss only those arrangements necessary for an outright sale of its peninsula commute service to an appropriate public authority.

Certain transit authorities have suggested that the assistance of this Commission be solicited to monitor the discussions by the various principals involved.

6/ The Mills-Alquist-Deddeh Act authorizes transit districts and other operators to file claims with the transportation planning agencies for funds to support public transportation systems. For claims filed to cover subsidy payments to railroad corporations see Sections 99260.5 and 99267 of the Public Utilities Code.

Other Parties

The Peninsula Commute & Transit Committee (PCTC) played an active role throughout the proceeding on behalf of its membership, who are chiefly regular patrons of SP's passenger service. Its opposition to SP's fare proposal in general supports the position taken by the several transit agencies. The opposition of the other protestants is directed more toward the magnitude of the sought increase rather than being opposed to any modest upward adjustment in fares.

An interested party requested that the present age limitation of 26 years for student discount fares be eliminated. While this proposal has some merit it is not justified at this time.

Discussion & Recommendations

The destiny of SP's commute service is now in jeopardy. It has experienced a steady loss of riders over the past 25 years. Except for a possible inconvenience factor, due to location of SP's fixed termini, and the improved road network, the only apparent reason for this unfortunate phenomenon is SP's complete failure to advertise or promote its passenger service in this market.

To the extent that there is a need for more revenues, the only immediate viable sources for generating additional revenue are a reasonable fare increase, and possibly public transit subsidy and/or a purchase service agreement with the existing transit authorities.

SP contends that the only solution to the revenue needs of its commute operations is to double its passenger fares. SP's position, as so eloquently expressed by its vice president, is that

it would find public subsidies "unacceptable".

The local peninsula transit agencies have made a genuine effort to negotiate with SP for a joint partnership arrangement to implement the public transit plans for the peninsula. The record shows SP's management has declined to discuss any joint transit program calling for subsidy financing or purchase of service agreements by the transit districts. This refusal by SP management to explore or even discuss what appear to be reasonable prospects for additional revenues and service improvements as inexcuseable. It reflects an utter disregard, or at least a lack of basic understanding, of the SP's public responsibilities as a regulated carrier of passengers in this State. This inflexible posture against cooperating with the duly constituted public transit agencies of this region to negotiate possible additional revenues to SP would, parenthetically, seem to work a considerable disservice on SP's stockholders, as well.

It is clear that rail commuter service is an indispensable part of transit on the San Francisco peninsula. It must therefore be preserved and every available avenue must be explored to assure its survival and improvement. Southern Pacific has the public responsibility to negotiate in good faith with the public transit agencies to obtain whatever subsidies it can to further enhance this vital passenger transportation service.

As previously discussed, SP has not demonstrated sufficient or substantial reason to change the traditional avoidable above-the-rail basis for determining expenses and setting fares on this service. Accordingly, the staff's results of commute operations for the constructed test year 1975 are the proper figures to adopt in this proceeding, with the adjustment of $509,000 of additional direct labor expenses as developed by SP. The estimated results of SP's commute operations are thusly:

TABLE 11

Estimated Results Of
Commute Operations Under a 25% Fare Increase
For a 1975 Test Year

		With 25% Fare Increase**	
	Present Fares	Zero Diversion	8 Percent Diversion
Revenue	$5,192,600	$6,463,000	$6,000,000
Expenses*	7,557,800	7,557,800	7,557,800
Deficit	$2,365,200	$1,094,800	$1,557,800
Amount Absorbed by Income Tax	1,409,500	831,000	1,062,500
Actual Cash Drain	$ 955,700	$ 263,800	$ 495,300

* Corrected to include the additional $509,000 of labor expense as developed by SP.

** SP's original position was that there would in effect be no diversion for a 96% fare increase. SP's later diversion model predicts a 7.9% diversion for a 20% fare increase and a 10.6% diversion for a 30% fare increase.

The staff recommended 25% fare increase is reasonable as it will raise SP fares to a level not uncompetitive with the available transportation alternatives in this market, and will generate additional revenues to substantially reduce SP's $955,700 loss in providing this service. With no diversion of passengers, as per SP's original position, the loss would be reduced to $263,800 per annum. Allowing for diversion of 8%, a value consistent with both SP's model and some of the other evidence in this proceeding, the loss will be $495,300. Raising the fares higher than the 25% recommended by the staff would result in raising the cost of patronizing SP far beyond that for the available transportation alternatives, with the likelihood of substantially increased diversion of SP's present passenger base. For example, the staff has shown that about half of SP's present passengers could be expected to leave the train if the fares were doubled, as sought in this application. Any such massive diversion of SP's patronage (even the 20.4% predicted by SP) would seriously jeopardize the future of this vital passenger transportation service.

The MTC's PENTAP report was submitted on December 30,1976 to the Legislature for approval. The plan calls for the upgrading of rail and bus service within the West Bay corridor. The plan contemplates the improvement of SP's passenger rail service as the principal element of corridor transportation. It is essential that the present ridership base be preserved for the future development of transit in this corridor. At the same time, sufficient justification exists on this record to raise the fares by the 25% recommended by the staff.

Southern Pacific proposes that we use fully allocated costs to set rates for its commute operations. We note inconsistency on Southern Pacific's part in its ratemaking approach for passengers as compared to freight. In Case No. 9424, Decision No. 82645 (1974) BBD Transportation, et al. v Pacific Southcoast Freight Bureau, et al., the position of both Southern Pacific and Santa Fe was that in establishing rates fully allocated costs should not be used. We quote our summary of Southern Pacific's testimony in Decision No. 82645 (pp. 27, 28 mimeo):

> The SP cost witness testified in opposition to complainants' rail cost evidence. He stated that fully allocated cost for a specific move would be the variable cost plus some arbitrary allocation of the overall fixed expenses of the operation. He said that any allocation of fixed expenses would be arbitrary because it would have to be based upon past traffic volume which would have no relation by definition to a specific movement. He said: '... any fully allocated cost, I would term it a statistical fiction, it's just an arbitrary allocation of expenses that bear no relationship to a given move.' He noted that the fully allocated cost method in Exhibit 9 introduced by complainants' cost witness was on the basis of a pro rata share of tons and a pro rata share of ton miles for a given movement. He stated that this method penalizes a more efficiently loaded or fully loaded car by assigning a greater share of the fixed costs than would be assigned to a lighter load. He said that a fully allocated cost basis would put a high burden on an operation which is operating below its full capacity by assigning a full share of fixed cost to a relatively small number of moves.
>
> The SP cost witness asserted that demand elasticity exists where an increase in the price of a commodity will drive off business to the extent that the total revenue drops with a raise in price. He said that if SP was forced to set a rate at fully allocated cost it would drive off traffic which could be carried between variable and fully allocated cost and the railroad would be in worse net revenue position than by using variable cost. He explained that if traffic is driven off there would be less traffic to share the fixed costs, so that there would be a greater fully allocated cost for each move which, in turn, would drive off more traffic. He rationalized that the end result would be a railroad with a high fixed cost and no traffic. He

contended that it is not possible to price railroad services on a fully allocated cost basis. He said if a railroad were operating at a systemwide loss it still should not price on the basis of fully allocated cost. It was his opinion that variable cost is the only consistent and rational basis for determining the amount above which a load should be carried.

Southern Pacific's testimony in Case No. 9424 points out the serious problems with using fully allocated costs to set rates for its commute service. Different approaches to ratemaking and pricing lead to different results. We would expect that variable or direct out-of-pocket pricing would have produced a lesser revenue requirement than the fully allocated cost approach which Southern Pacific used for this proceeding. We are of the opinion that applying variable costs is the meaningful method of determining Southern Pacific's revenue requirement for its commute service.

Findings

1. The SP's San Francisco peninsula passenger fare structure was established by Decision No. 82242 dated December 7, 1973 in Application No. 53666. By Decision No. 82004 dated October 16, 1973 in Application No. 54267 SP's fares were increased 6 percent to offset a railroad retirement tax increase. A fuel cost offset fare increase of approximately 8 percent was authorized by Decision No. 83419 dated September 11, 1974 in Application No. 54614, which are the fares currently in effect.

2. SP's passenger traffic has generally eroded for several years. It appears that the reasons for this unfortunate phenomenon include the improvements in the local road system and SP's near-complete failure to advertise and promote its peninsula passenger train service.

3. SP now seeks authority to increase its passenger fares by 96.4 percent to provide additional revenue of $3,497,000, which does not include increased constructed pass revenue amounting to approximately $891,067.

4. Fares for this service have traditionally been set on an avoidable above-the-rail basis.

5. SP has not demonstrated sufficient or substantial reason to adopt any basis other than the established avoidable above-the-rail basis. On the contrary, this basis gives proper consideration to the actual expenses to SP for the continued operation of this service under the present circumstances.

6. The staff Transportation Division's results of operations, as modified to reflect $509,000 of additional labor expenses, should be adopted for purposes of this proceeding.

7. SP is losing $955,700 under present fares, and this loss will be reduced to between $263,800 and $495,300, depending on diversion, if the fares are raised 25 percent.

8. A 25 percent fare increase will raise the cost of traveling by SP to a level not uncompetitive with the available transportation alternatives in this market.

9. A fare increase larger than 25 percent would raise the cost of travel by SP to a level uncompetitive with the available transportation alternatives in this market, with consequent greater diversion of passengers from SP to other modes.

10. The SP diversion model is largely unreasonable in that it does not incorporate significant known facts concerning the choice of travel modes by passengers. This fault is especially significant for fare increases of greater magnitudes than SP has recently experienced (e.g.: above 20 or 25 percent); the staff diversion estimates for larger fare increases are reasonable in that they do reflect the knowledge omitted in the SP's model.

11. No sufficient showing has been made upon which a determination can be made that SP's overall intrastate regulated operations are anything but profitable.

12. MTC's PENTAP report to the State Legislature, dated January 1977, recommends the improvement of SP's service as the principal element of West Bay corridor transportation.

13. The thrust of the several public transit agencies' opposition to SP's fare increase is its potential adverse impact upon riders and the resulting debilitating effect upon any effort to implement their corridor transit plans. By all evidence, these plans are active and pending of implementation in the foreseable future.

14. The transit agencies have made a genuine effort to negotiate with SP for a joint partnership arrangement to implement their plans for transit on the peninsula. SP has refused to negotiate anything but a complete buy-out of its entire passenger service.

15. This refusal by SP management to negotiate in good faith for what appear to be reasonable prospects for additional revenues is inexcuseable, and reflects an utter disregard, or at least a lack of basic understanding, of SP's public responsibilities as a regulated carrier of passengers in this State. The public is entitled to benefit from whatever improvements in service might be forthcoming from such subsidies; the public policy having clearly been set forth to commit public resources to improving transit in this region.

16. A prima facie case having been made that public monies in some form are reasonably available to this service, and that SP has to date refused to negotiate in good faith for such monies, SP is not entitled to any fare increase greater than that granted herein. This is an additional sufficient and independent reason for our decision to limit the fare increase we will grant to 25 percent. Indeed, this factor could by itself provide justification for outright dismissal of a fare increase application by a regulated carrier.

17. Pursuant to the Commission policy enunciated in Decision No. 81237, 75 PUC 134, where we held that although the policy provisions of CEQA apply to rate proceedings, the EIR provisions do not, extensive environmental impact data were received.

18. The environmental effects with respect to changes in traffic, air and water pollutants, noise, and fuel consumption were thoroughly analyzed and forecasted on the basis of assumed total abandonment (diversion) of SP's peninsula passenger service. The effects of other magnitudes of diversion were projected in ten percent increments.

19. At total diversion the peak-hour traffic would increase significantly on existing freeway Routes 101 and 280 in areas north of the southern San Francisco county line where peak-hour traffic is already at capacity. In these route segments the impact of total diversion would be to considerably aggravate stop-and-go traffic during peak hours. Significant automobile traffic increases would likewise result from any substantial diversion of SP passengers, as would for example, likely follow fare increases much above 25 percent.

20. The consequences of a fare increase of 25 percent or less will not have a significant effect on the quality of the environment.

21. The adverse environmental consequences of significant automobile traffic increases in this corridor constitutes an additional sufficient and independent reason for our decision to limit the fare increase we will grant to 25 percent.

22. No showing has been made, nor can it reasonably be inferred, that SP's overall intrastate regulated operations either are now or would operate at a loss following the granting of a 25 percent fare increase on the peninsula train service. Neither could it be reasonably inferred or concluded that an operating loss of under $500,000 for this vital service could possibly constitute an undue burden on interstate commerce, even if, ad arguendum, SP were to show that its total intrastate regulated operations were unprofitable.

Conclusion

The evidence in this proceeding justifies the issuance of the following order.

O R D E R

IT IS ORDERED that:

1. The Southern Pacific Transportation Company is authorized to increase the level of its passengers fares on the San Francisco peninsula by 25 percent as set forth in Appendix C, attached.

2. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

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

4. The joint petition to require the preparation of an environmental impact report filed by The Peninsula Commute and Transit Committee and by the Planning and Conservation League is denied.

5. To the extent not granted by this order all outstanding motions and/or petitions of record having been fully considered are denied.

6. The Southern Pacific Transportation Company is directed to post and maintain in its passenger cars operated in suburban service on the San Francisco peninsula and in its depots at San Francisco, San Jose, and intermediate stations a notice of the increased fares herein authorized. Said notice shall be posted not less than five days prior to the effective date of the increased fares and shall remain posted for a period of not less than thirty days.

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

Dated at San Francisco, California, this 12th day of JULY, 1977.

I will file a written dissent
William Symons Jr.

I will file a written dissent
Vernon L. Sturgeon

Robert Batinovich
President

Richard D. Gravelle

Claire T. Dedrick
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: W. Harney Wilson and Mary L. Walker, Attorneys at Law, for Southern Pacific Transportation Company.

Protestants: Hanson, Bridgett & Marcus, by Bruce McDonough, Attorney at Law; and Robert E. Norris, for San Mateo County Transit District; Carl A. Smith, Armand M. Menocal, Terry K. Murphy, Peter V. Milward, J. Anthony Kline, and Sandra K. Rogers, Attorney at Law, (for self), for Peninsula Commute & Transit Committee; William C. Burns, for self and Valley Coalition, Transit Task Force; Dennis W. DeCuir, Attorney at Law, for City of Palo Alto; Gordon Lewin, for Bay Area Citizens Action League; Mem Levin, for Three Combined Leagues of Women Voters, San Mateo County; Center for Law in the Public Interest, by John R. Phillips, Attorney at Law, for Planning and Conservation League and Peninsula Commute & Transit Committee; Alfons Puishes, Attorney at Law, for self and Peninsula Commuters Union; John Epailly, Laurence Dawson, Gary Klementovich, and Robert W. Naylor, Attorney at Law, for themselves; and Thomas O'Connor, City Attorney, by Robert R. Laughead, for City and County of San Francisco.

Interested Parties: Louis J. Papan, State Assemblyman, for Citizens of Northern San Mateo County; Don Fields, for Assemblyman Louis Papan; George W. Nickelson, for County of San Mateo; Louis Montini, for County of Santa Clara; Alva Johnson, for Metropolitan Transportation Commission; Mrs. Sylvia M. Siegel, for Toward Utility Rate Normalization; Richard M. Hannon, Attorney at Law, and Dale C. Jensen, for Greyhound Lines, Inc.; Francis Hardin, for Wilsey & Ham; Wallace A. Little, for Firm of Accountants for Public Interest; William Simmons, by Michael Macomber, for California Air Resources Board; and James E. Merritt, Attorney at Law, W. H. Stielow, Joseph E. Terracians, Attorney at Law, Jeffrey P. Widman, Attorney at Law, Thomas G. Matoff, Ann Elizabeth Stenzel, Betty Bullock, David M. Axelrad, Terry Aragon, Marjorie Naughton, Michael J. Giani, John H. Ertt, Attorney at Law, and William E. Turpen, for themselves.

Commission Staff: Lionel B. Wilson and Vincent MacKenzie, Attorneys at Law, H. H. Webster and Robert Bouchet.

PRESENT AND PROPOSED FARES BETWEEN SAN FRANCISCO-SAN JOSE AND INTERMEDIATE STATIONS

BETWEEN SAN FRANCISCO 4TH ST., 22ND STREET, PAUL AVENUE, BAYSHORE AND	CLASS OF TICKETS	PRESENT $	PROPOSED $
SAN FRANCISCO 4TH ST., 22ND STREET, PAUL AVENUE, BAYSHORE	ONE WAY	0.75	1.50
	ROUND TRIP	1.50	3.00
ZONE 1	ONE WAY	1.15	2.30
BUTLER ROAD	ROUND TRIP	2.30	4.60
SO. SAN FRANCISCO	MO. (5-DAY WEEK)	27.00	52.25
SAN BRUNO	MONTHLY	23.25	52.00
MILLBRAE	WEEKLY	7.75	15.10
	20-RIDE	19.50	39.00
ZONE 2	ONE WAY	1.35	2.75
BROADWAY	ROUND TRIP	2.70	5.50
BURLINGAME	MO. (5-DAY WEEK)	31.50	61.25
SAN MATEO	MONTHLY	34.25	67.00
HAYWARD PARK	WEEKLY	8.85	17.30
	20-RIDE	22.30	43.55
ZONE 3	ONE WAY	1.70	3.40
HILLSDALE	ROUND TRIP	3.40	6.80
BELMONT	MO. (5-DAY WEEK)	36.00	70.25
SAN CARLOS	MONTHLY	39.25	77.00
REDWOOD CITY	WEEKLY	10.00	19.50
	20-RIDE	25.15	49.15
ZONE 4	ONE WAY	2.05	4.10
ATHERTON	ROUND TRIP	4.10	8.20
MENLO PARK	MO. (5-DAY WEEK)	40.50	79.25
PALO ALTO	MONTHLY	44.25	87.00
CALIFORNIA AVENUE	WEEKLY	11.70	22.90
	20-RIDE	29.30	57.40
ZONE 5	ONE WAY	2.40	4.75
CASTRO	ROUND TRIP	4.80	9.50
MOUNTAIN VIEW	MO. (5-DAY WEEK)	45.00	88.00
SUNNYVALE	MONTHLY	49.50	97.50
	WEEKLY	13.20	25.85
	20-RIDE	33.00	64.80
ZONE 6	ONE WAY	2.55	5.05
SANTA CLARA	ROUND TRIP	5.10	10.10
COLLEGE PARK	MO. (5-DAY WEEK)	48.50	95.00
SAN JOSE	MONTHLY	52.75	104.00
	WEEKLY	14.75	29.90
	20-RIDE	36.85	72.50

BETWEEN ZONE 1	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.40	4.75
ROUND TRIP	4.80	9.50
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30
ONE WAY	2.55	5.05
ROUND TRIP	5.10	10.10
MO. (5-DAY WEEK)	-	-
MONTHLY	49.50	97.50
WEEKLY	13.15	25.75
20-RIDE	32.90	64.55

BETWEEN ZONE 2	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.35	2.75
ROUND TRIP	2.70	5.50
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30
ONE WAY	2.40	4.75
ROUND TRIP	4.80	9.50
MO. (5-DAY WEEK)	-	-
MONTHLY	49.50	97.50
WEEKLY	13.15	25.75
20-RIDE	32.90	64.55

BETWEEN ZONE 3	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.35	2.75
ROUND TRIP	2.70	5.50
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30
ONE WAY	2.40	4.75
ROUND TRIP	4.80	9.50
MO. (5-DAY WEEK)	-	-
MONTHLY	49.50	97.50
WEEKLY	13.15	25.75
20-RIDE	32.90	64.55

BETWEEN ZONE 4	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.35	2.75
ROUND TRIP	2.70	5.50
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30

BETWEEN ZONE 5	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.35	2.75
ROUND TRIP	2.70	5.50
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30

BETWEEN ZONE 6	PRESENT $	PROPOSED $
ONE WAY	0.75	1.50
ROUND TRIP	1.50	3.00
MO. (5-DAY WEEK)	-	-
MONTHLY	24.00	46.50
WEEKLY	6.15	11.80
20-RIDE	13.20	25.30
ONE WAY	1.05	2.10
ROUND TRIP	2.10	4.20
MO. (5-DAY WEEK)	-	-
MONTHLY	28.50	55.50
WEEKLY	7.35	14.25
20-RIDE	18.50	35.85
ONE WAY	1.35	2.75
ROUND TRIP	2.70	5.50
MO. (5-DAY WEEK)	-	-
MONTHLY	33.50	65.50
WEEKLY	8.55	16.65
20-RIDE	21.55	42.00
ONE WAY	1.70	3.40
ROUND TRIP	3.40	6.80
MO. (5-DAY WEEK)	-	-
MONTHLY	38.75	76.00
WEEKLY	10.05	19.60
20-RIDE	25.25	49.35
ONE WAY	2.05	4.10
ROUND TRIP	4.10	8.20
MO. (5-DAY WEEK)	-	-
MONTHLY	43.75	86.00
WEEKLY	11.30	22.05
20-RIDE	28.30	55.30

APPENDIX B
Page 2 of 3

STUDENT WEEKLY AND MONTHLY COMMUTATION FARES
(WITHOUT SATURDAYS AND SUNDAYS)

BETWEEN SAN FRANCISCO 4TH ST.
23RD STREET
PAUL AVENUE
BAYSHORE

ASB	CLASS OF TICKETS	ZONE 1 PRESENT $	ZONE 1 PROPOSED $	ZONE 2 PRESENT $	ZONE 2 PROPOSED $	ZONE 3 PRESENT $	ZONE 3 PROPOSED $	ZONE 4 PRESENT $	ZONE 4 PROPOSED $	ZONE 5 PRESENT $	ZONE 5 PROPOSED $	ZONE 6 PRESENT $	ZONE 6 PROPOSED $
ZONE 1	MONTHLY	16.85	32.75	13.55	26.25								
	WEEKLY	5.20	10.15	4.40	8.55								
ZONE 2	MONTHLY	20.05	39.00	16.85	32.75	13.55	26.25						
	WEEKLY	6.05	11.80	5.20	10.15	4.40	8.55						
ZONE 3	MONTHLY	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25				
	WEEKLY	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55				
ZONE 4	MONTHLY	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25		
	WEEKLY	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55		
ZONE 5	MONTHLY	29.55	57.75	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25
	WEEKLY	8.45	16.55	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55
ZONE 6	MONTHLY	32.70	64.00	29.55	57.75	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75
	WEEKLY	9.20	18.05	8.45	16.55	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15

STATIONS LOCATED IN EACH ZONE WILL BE THE SAME AS SHOWN ON PAGE 1.

RECOMMENDED FARES BETWEEN SAN FRANCISCO-SAN JOSE AND INTERMEDIATE STATIONS

AND	CLASS OF TICKETS	BETWEEN SAN FRANCISCO	4th ST. 23rd ST.	PAUL AVE. BAYSHORE	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6
San Francisco Terminal	One Way	$ 0.95								
23rd Street	Round Trip	1.90								
Paul Avenue										
Bayshore										
ZONE 1	One Way	$ 1.45	$ 0.95							
Butler Road	Round Trip	2.90	1.90							
So. San Fran.	Mo.(5-D. Wk.)	33.75	-							
San Bruno	Monthly	36.55	30.00							
Millbrae	Weekly	9.70	7.70							
	20-Ride	24.40	16.50							
ZONE 2	One Way	1.70	1.30	$ 0.95						
Broadway	Round Trip	3.40	2.60	1.90						
Burlingame	Mo.(5-D. Wk.)	39.40	-							
San Mateo	Monthly	42.80	35.60	30.00						
Hayward Park	Weekly	11.05	9.20	7.70						
	20-Ride	27.90	23.10	16.50						
ZONE 3	One Way	2.10	1.70	1.30	$ 0.95					
Hillsdale	Round Trip	4.25	3.40	2.60	1.90					
Belmont	Mo.(5-D. Wk.)	45.00	-	-	-					
San Carlos	Monthly	49.05	41.90	35.60	30.00					
Redwood City	Weekly	12.50	10.70	9.20	7.70					
	20-Ride	31.45	26.95	23.10	16.50					
ZONE 4	One Way	2.55	2.10	1.70	1.30	$ 0.95				
Atherton	Round Trip	5.10	4.25	3.40	2.60	1.90				
Menlo Park	Mo.(5-D. Wk.)	50.60	-	-	-	-				
Palo Alto	Monthly	55.30	48.45	41.90	35.60	30.00				
Calif. Ave.	Weekly	14.60	12.55	10.70	9.20	7.70				
	20-Ride	36.60	31.55	26.95	23.10	16.50				
ZONE 5	One Way	3.00	2.55	2.10	1.70	1.30	$ 0.95			
Castro	Round Trip	6.00	5.10	4.25	3.40	2.60	1.90			
Mt. View	Mo.(5-D. Wk.)	56.25	-	-	-	-	-			
Sunnyvale	Monthly	61.90	54.70	48.45	41.90	35.60	30.00			
	Weekly	16.50	14.10	12.55	10.70	9.20	7.70			
	20-Ride	41.25	35.40	31.55	26.95	23.10	16.50			
ZONE 6	One Way	3.20	3.00	2.55	2.10	1.70	1.30	$ 0.95		
Santa Clara	Round Trip	6.40	6.00	5.10	4.25	3.40	2.60	1.90		
College Park	Mo.(5-D. Wk.)	60.60	-	-	-	-	-	-		
	Monthly	65.95	61.90	54.70	48.45	41.90	35.60	30.00		
	Weekly	18.45	16.45	14.10	12.55	10.70	9.20	7.70		
	20-Ride	46.05	41.10	35.40	31.55	26.95	23.10	16.50		

APPENDIX C
Page 2 of 2

STUDENT WEEKLY AND MONTHLY RECOMMENDED FARES
(EXCLUDES SATURDAYS AND SUNDAYS)

AND	CLASS OF TICKET	BETWEEN SAN FRANCISCO 4TH ST. 23RD ST. PAUL AVE. BAYSHORE	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6
Zone 1	Monthly	$21.05	$16.95					
	Weekly	6.50	5.50					
Zone 2	Monthly	$25.05	$21.05	$16.95				
	Weekly	7.55	6.50	5.50				
Zone 3	Monthly	$29.00	$25.05	$21.05	$16.95			
	Weekly	8.60	7.55	6.50	5.50			
Zone 4	Monthly	$32.90	$29.00	$25.05	$21.05	$16.95		
	Weekly	9.55	8.60	7.55	6.50	5.50		
Zone 5	Monthly	$36.95	$32.90	$29.00	$25.05	$21.05	$16.95	
	Weekly	10.55	9.55	8.60	7.55	6.50	5.50	
Zone 6	Monthly	$40.90	$36.95	$32.90	$29.00	$25.05	$21.05	$16.95
	Weekly	11.50	10.55	9.55	8.60	7.55	6.50	5.50

A. 55131 - D. 87583
SOUTHERN PACIFIC TRANSPORTATION COMPANY: PENINSULA COMMUTE RATE INCREASE

COMMISSIONER VERNON L. STURGEON, Dissenting

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

Politicians complain that railroads in the United States are in sick shape. These government leaders note the energy-saving potential of rail transportation. They then urge governmental programs and an effort to become more like Europe where railroads still play a significant part in transportation. Overlooked here is the fact that a major cause in the steady decline of our railroad industry over the years has been government regulatory policies that have been politicized.

Today's majority decision is a notorious case in point. Shielded from cost-justified increases are the "locals" -- SP's peninsula patrons, which the record indicates, enjoy one of the highest per capita income levels in the nation. The "fall guys" are not so easy to bring into focus. They are: (1) citizens who have their money invested in Southern Pacific, (2) national consumers who pay a little extra for goods shipped interstate on Southern Pacific, and (3) (if you believe the workability of the convoluted "negative-income tax" theory of the majority) all people who pay taxes to the United States Government.

SP's present operating deficit on the peninsula commute is enormous. Since we live in the real world, you can be sure someone will pay. Using fully distributed costs, the record shows that as of April 1, 1976 present commute operations cost $13,269,400. Total

commute revenue for the same period is $4,666,000. The annual loss is $8,603,000. Today's majority estimates the 25% increase it allows will provide in additional revenue annually approximately $807,400! The result is a level of fares which are patently confiscatory and unduly discriminatory. The result is in obvious violation of the California Public Utilities Code and runs afoul of the Interstate Commerce Act.

What Should Be Done? For those who wish to review the case carefully, we find that the proposed decision of the assigned Administrative Law Judge accurately sets forth the evidence in this matter (Attachment "A" hereto). The relief it would have provided is the bare-bones amount that the facts in the case require.

What Was Done? The majority turns a blind eye to the record developed at hearing and to the tremendous losses. It invents non-issues and novel theories in an effort to cover up avoidance of the law.

A. The invention of the "negative income tax" rationale to ignore SP's losses

Transportation staff sought to justify the 25% increase on the basis of an "avoidable above-the-rail cost" exhibit. While the term is familiar to ICC practitioners, the staff exhibit omitted several normal categories of expenses allowed under this theory. These had to be corrected by adjustments. (See Attachment "A", Tables 12, 13 and 14) The majority decision ignores all but one glaring labor adjustment and accepts the original exhibit, calling it "traditional". In reality the exhibit is not "avoidable

above-the-rail costs" analysis, but a version of an out-of-pocket cost-of-operations approach. Even this approach is made a joke by the insertion of an enormous "negative income tax" ratemaking "adjustment". Under this pseudo-thinking tax losses are made the equivalent of profits. Following this thinking to its logical conclusion, SP and other transportation companies under our jurisdiction could be advised that the best policy is not to have passengers pay, but to pay passengers instead. Such action would increase the company's direct variable operating losses, further reducing Southern Pacific Company's income tax obligation. Under such dubious maneuvers, as seen through the majority's special glasses, failure converts into success; profits sprout from losses. Ingeniously, the Commission majority has found a way for the national tax treasury to be raided for the benefit of SP's peninsula commuters without the say-so of Congress or the taxpayer.

B. The second invention: SP's other intrastate regulated operations were an issue in the case

The majority takes a non-issue and makes the lack of evidence on the non-issue into a finding which they use against the applicant. Finding 11:

> "No sufficient showing has been made upon which a determination can be made that SP's overall intrastate regulated operations are anything but profitable." (See similar Finding 22.)

This was never an issue in this case. To treat it as such is a breach of fair process. Further, it is dishonest for

the Commission to insinuate profitability since it has information in its data banks as well as current cases before the Commission that clearly evidence ongoing operating losses for SP intrastate freight operations. See Decision 87063 (Application 56999), dated only four months ago (March 9, 1977) wherein the Commission authorized the California railroads to apply the ICC's ExParte 336 freight rate increase of 4 percent to California intrastate rail traffic. Exhibit T of the Application shows that even after the imposition of the 4 percent ExParte 336 increase in freight rates, SP's intrastate freight operation will still experience a net income loss of some $1,200,000.

The majority grasps other straws as well to try to defend its ruthless treatment of SP: negotiation, competition. Off the record negotiations by transit agencies are still highly speculative, yet they assigned them greater value than the facts in evidence. There is talk of competition, too. What other private enterprise is now engaged in major peninsula commute operations? The Commission knows that it has just allowed Greyhound Lines, Inc. to be taken over by SamTrans, a public district (Decision 87453, June 7, 1977). To talk of other fare box prices as if set by a competitive free market is nonsense; they are set by local government board decree with the taxpayer making up sizable operating losses from non-compensatory fares.

The strained result in the decision of the majority is a travesty of justice. Ironically, it is so bad it is likely to even jeopardize

the interest of the one group who seems to benefit -- the present SP commuters who are being so heavily subsidized by others. Danger to commuter interests comes from the real possibility that the ICC may require the abandonment of train commute service because it finds the present intolerable situation constitutes an "undue burden on interstate commerce". From our involvement in this case, we have seen nothing which could be used to prove the ICC wrong in taking this unfortunate action.

San Francisco, California
July 12, 1977

Vernon L. Sturgeon
VERNON L. STURGEON
Commissioner

William Symons, Jr.
WILLIAM SYMONS, JR.
Commissioner

6. To the extent not granted by this order all outstanding motions and/or petitions of record having been fully considered are denied.

7. The Southern Pacific Transportation Company is directed to post and maintain in its passenger cars operated in suburban service on the San Francisco peninsula and in its depots at San Francisco, San Jose, and intermediate stations a notice of the increased fares herein authorized. Said notice shall be posted not less than five days prior to the effective date of the increased fares and shall remain posted for a period of not less than thirty days.

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

Dated at _____, California, this _____ day of _____, 1977.

APPENDIX A

LIST OF APPEARANCES

Applicant: W. Harney Wilson and Mary L. Walker, Attorneys at Law, for Southern Pacific Transportation Company.

Protestants: Hanson, Bridgett & Marcus, by Bruce McDonough, Attorney at Law; and Robert E. Norris, for San Mateo County Transit District; Carl A. Smith, Armand M. Menocal, Terry K. Murphy, Peter V. Milward, J. Anthony Kline, and Sandra K. Rogers, Attorney at Law, (for self), for Peninsula Commute & Transit Committee; William C. Burns, for self and Valley Coalition, Transit Task Force; Dennis W. DeCuir, Attorney at Law, for City of Palo Alto; Gordon Lewin, for Bay Area Citizens Action League; Mem Levin, for Three Combined Leagues of Women Voters, San Mateo County; Center for Law in the Public Interest, by John R. Phillips, Attorney at Law, for Planning and Conservation League and Peninsula Commute & Transit Committee; Alfons Puishes, Attorney at Law, for self and Peninsula Commuters Union; John Epailly, Laurence Dawson, Gary Klementovich, and Robert W. Naylor, Attorney at Law, for themselves; and Thomas O'Connor, City Attorney, by Robert R. Laughead, for City and County of San Francisco.

Interested Parties: Louis J. Papan, State Assemblyman, for Citizens of Northern San Mateo County; Don Fields, for Assemblyman Louis Papan; George W. Nickelson, for County of San Mateo; Louis Montini, for County of Santa Clara; Alva Johnson, for Metropolitan Transportation Commission; Mrs. Sylvia M. Siegel, for Toward Utility Rate Normalization; Richard M. Hannon, Attorney at Law, and Dale C. Jensen, for Greyhound Lines, Inc.; Francis Hardin, for Wilsey & Ham; Wallace A. Little, for Firm of Accountants for Public Interest; William Simmons, by Michael Macomber, for California Air Resources Board; and James E. Merritt, Attorney at Law, W. H. Stielow, Joseph E. Terraciano, Attorney at Law, Jeffrey P. Widman, Attorney at Law, Thomas G. Matoff, Ann Elizabeth Stenzel, Betty Bullock, David M. Axelrad, Terry Aragon, Marjorie Naughton, Michael J. Giari, John H. Ert, Attorney at Law, and William E. Turpen, for themselves.

Commission Staff: Lionel B. Wilson and Vincent MacKenzie, Attorneys at Law, H. H. Webster and Robert Boucnet.

PRESENT AND PROPOSED FARES BETWEEN
SAN FRANCISCO-SAN JOSE AND INTERMEDIATE STATIONS

BETWEEN	SAN FRANCISCO 4TH ST. 23RD STREET PAUL AVENUE BAYSHORE		ZONE 1		ZONE 2		ZONE 3		ZONE 4		ZONE 5		ZONE 6	
AND	CLASS OF TICKETS	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $
SAN FRANCISCO 4TH ST.	ONE WAY	0.75	1.50												
23RD STREET	ROUND TRIP	1.50	3.00												
PAUL AVENUE															
BAYSHORE															
ZONE 1	ONE WAY	1.15	2.30	0.75	1.50										
BUTLER ROAD	ROUND TRIP	2.30	4.60	1.50	3.00										
SO. SAN FRANCISCO	MO. (5-DAY WEEK)	27.00	52.25	-	-										
SAN BRUNO	MONTHLY	29.25	57.00	24.00	46.50										
MILLBRAE	WEEKLY	7.75	15.10	6.15	11.80										
	20-RIDE	13.50	38.00	13.20	25.30										
ZONE 2	ONE WAY	1.35	2.75	1.05	2.10	0.75	1.50								
BROADWAY	ROUND TRIP	2.70	5.50	2.10	4.20	1.50	3.00								
BURLINGAME	MO. (5-DAY WEEK)	31.50	61.25	-	-	-	-								
SAN MATEO	MONTHLY	34.25	67.00	28.50	55.50	24.00	46.50								
HAYWARD PARK	WEEKLY	8.85	17.30	7.35	14.25	6.15	11.80								
	20-RIDE	22.30	43.55	18.50	35.85	13.20	25.30								
ZONE 3	ONE WAY	1.70	3.40	1.35	2.75	1.05	2.10	0.75	1.50						
HILLSDALE	ROUND TRIP	3.40	6.80	2.70	5.50	2.10	4.20	1.50	3.00						
BELMONT	MO. (5-DAY WEEK)	36.00	70.25	-	-	-	-	-	-						
SAN CARLOS	MONTHLY	39.25	77.00	33.50	65.50	28.50	55.50	24.00	46.50						
REDWOOD CITY	WEEKLY	10.00	19.50	8.55	16.65	7.35	14.25	6.15	11.80						
	20-RIDE	25.15	49.15	21.55	42.00	18.50	35.85	13.20	25.30						
ZONE 4	ONE WAY	2.05	4.10	1.70	3.40	1.35	2.75	1.05	2.10	0.75	1.50				
ATHERTON	ROUND TRIP	4.10	8.20	3.40	6.80	2.70	5.50	2.10	4.20	1.50	3.00				
MENLO PARK	MO. (5-DAY WEEK)	40.50	79.25	-	-	-	-	-	-	-	-				
PALO ALTO	MONTHLY	44.25	87.00	38.75	76.00	33.50	65.50	28.50	55.50	24.00	46.50				
CALIFORNIA AVENUE	WEEKLY	11.70	22.90	10.05	19.60	8.55	16.65	7.35	14.25	6.15	11.80				
	20-RIDE	29.30	57.40	25.25	49.35	21.55	42.00	18.50	35.85	13.20	25.30				
ZONE 5	ONE WAY	2.40	4.75	2.05	4.10	1.70	3.40	1.35	2.75	1.05	2.10	0.75	1.50		
CASTRO	ROUND TRIP	4.80	9.50	4.10	8.20	3.40	6.80	2.70	5.50	2.10	4.20	1.50	3.00		
MOUNTAIN VIEW	MO. (5-DAY WEEK)	45.00	88.00	-	-	-	-	-	-	-	-	-	-		
SUNNYVALE	MONTHLY	49.50	97.50	43.75	86.00	38.75	76.00	33.50	65.50	28.50	55.50	24.00	46.50		
	WEEKLY	13.20	25.85	11.30	22.05	10.05	19.60	8.55	16.65	7.35	14.25	6.15	11.80		
	20-RIDE	33.00	64.80	28.30	55.30	25.25	49.35	21.55	42.00	18.50	35.85	13.20	25.30		
ZONE 6	ONE WAY	2.55	5.05	2.40	4.75	2.05	4.10	1.70	3.40	1.35	2.75	1.05	2.10	0.75	1.50
SANTA CLARA	ROUND TRIP	5.10	10.10	4.80	9.50	4.10	8.20	3.40	6.80	2.70	5.50	2.10	4.20	1.50	3.00
COLLEGE PARK	MO. (5-DAY WEEK)	48.50	95.00	-	-	-	-	-	-	-	-	-	-	-	-
SAN JOSE	MONTHLY	52.75	104.00	49.50	97.50	43.75	86.00	38.75	76.00	33.50	65.50	28.50	55.50	24.00	46.50
	WEEKLY	14.75	28.90	13.15	25.75	11.30	22.05	10.05	19.60	8.55	16.65	7.35	14.25	6.15	11.80
	20-RIDE	36.85	72.50	32.90	64.55	28.30	55.30	25.25	49.35	21.55	42.00	18.50	35.85	13.20	25.30

STUDENT WEEKLY AND MONTHLY COMMUTATION FARES
(WITHOUT SATURDAYS AND SUNDAYS)

ABR	BETWEEN / CLASS OF TICKETS	SAN FRANCISCO 4TH ST. 23RD STREET PAUL AVENUE BAYSHORE		ZONE 1		ZONE 2		ZONE 3		ZONE 4		ZONE 5		ZONE 6	
		PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $	PRESENT $	PROPOSED $
ZONE 1	MONTHLY	16.85	32.75	13.55	26.25										
	WEEKLY	5.20	10.15	4.40	8.55										
ZONE 2	MONTHLY	20.05	39.00	16.85	32.75	13.55	26.25								
	WEEKLY	6.05	11.80	5.20	10.15	4.40	8.55								
ZONE 3	MONTHLY	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25						
	WEEKLY	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55						
ZONE 4	MONTHLY	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25				
	WEEKLY	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55				
ZONE 5	MONTHLY	29.55	57.75	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25		
	WEEKLY	8.45	16.55	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55		
ZONE 6	MONTHLY	32.20	64.00	29.55	57.75	26.30	51.50	23.20	45.25	20.05	39.00	16.85	32.75	13.55	26.25
	WEEKLY	9.20	18.05	8.45	16.55	7.65	15.00	6.90	13.50	6.05	11.80	5.20	10.15	4.40	8.55

STATIONS LOCATED IN EACH ZONE WILL BE THE SAME AS SHOWN ON PAGE 1.

APPENDIX C

RECOMMENDED FARES BETWEEN
SAN FRANCISCO-SAN JOSE AND INTERMEDIATE STATIONS

BETWEEN AND	CLASS OF TICKETS	SAN FRANCISCO 4th ST. 23rd ST. PAUL AVE. BAYSHORE	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6
San Francisco Terminal 23rd Street Paul Avenue Bayshore	One Way	$ 1.05						
	Round Trip	2.10						
ZONE 1	One Way	1.60	$ 1.05					
Butler Road	Round Trip	3.20	2.10					
So. San Fran.	Mo.(5-Day Week)	37.80	-					
San Bruno	Monthly	40.95	33.60					
Millbrae	Weekly	10.85	8.60					
	20-Ride	27.30	18.50					
ZONE 2	One Way	1.90	1.45	$ 1.05				
Broadway	Round Trip	3.80	2.90	2.10				
Burlingame	Mo.(5-Day Week)	44.10	-	-				
San Mateo	Monthly	47.95	39.90	33.60				
Hayward Park	Weekly	12.40	10.30	8.60				
	20-Ride	31.20	25.90	18.50				
ZONE 3	One Way	2.40	1.90	1.45	$ 1.05			
Hillsdale	Round Trip	4.80	3.80	2.90	2.10			
Belmont	Mo.(5-Day Week)	50.40	-	-	-			
San Carlos	Monthly	54.95	46.90	39.90	33.60			
Redwood City	Weekly	14.00	11.95	10.30	8.60			
	20-Ride	35.20	30.15	25.90	18.50			
ZONE 4	One Way	2.85	2.40	1.90	1.45	$ 1.05		
Atherton	Round Trip	5.70	4.80	3.80	2.90	2.10		
Menlo Park	Mo.(5-Day Week)	56.70	-	-	-	-		
Palo Alto	Monthly	61.95	54.25	46.90	39.90	33.60		
California Ave.	Weekly	16.40	14.05	11.95	10.30	8.60		
	20-Ride	41.00	35.35	30.15	25.90	18.50		
ZONE 5	One Way	3.35	2.85	2.40	1.90	1.45	$ 1.05	
Castro	Round Trip	6.70	5.70	4.80	3.80	2.90	2.10	
Mountain View	Mo.(5-Day Week)	63.00	-	-	-	-	-	
Sunnyvale	Monthly	69.30	61.25	54.25	46.90	39.90	33.60	
	Weekly	18.50	15.80	14.05	11.95	10.30	8.60	
	20-Ride	46.20	39.60	35.35	30.15	25.90	18.50	
ZONE 6	One Way	3.55	3.35	2.85	2.40	1.90	1.45	$ 1.05
Santa Clara	Round Trip	7.10	6.70	5.70	4.80	3.80	2.90	2.10
College Park	Mo.(5-Day Week)	67.90	-	-	-	-	-	-
San Jose	Monthly	73.85	69.30	61.25	54.25	46.90	39.90	33.60
	Weekly	20.65	18.40	15.80	14.05	11.95	10.30	8.60
	20-Ride	51.60	46.05	39.60	35.35	30.15	25.90	18.50

APPENDIX C
Page 2 of 2

STUDENT WEEKLY AND MONTHLY RECOMMENDED FARES
(EXCLUDES SATURDAYS AND SUNDAYS)

AND	CLASS OF TICKET	BETWEEN SAN FRANCISCO 4TH ST. 23RD ST. PAUL AVE. BAYSHORE	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6
Zone 1	Monthly	$23.60	$18.95					
	Weekly	7.30	6.15					
Zone 2	Monthly	28.05	23.60	$18.95				
	Weekly	8.45	7.30	6.15				
Zone 3	Monthly	32.50	28.05	23.60	$18.95			
	Weekly	9.65	8.45	7.30	6.15			
Zone 4	Monthly	36.80	32.50	28.05	23.60	$18.95		
	Weekly	10.70	9.65	8.45	7.30	6.15		
Zone 5	Monthly	41.35	36.80	32.50	28.05	23.60	$18.95	
	Weekly	11.85	10.71	9.65	8.45	7.30	6.15	
Zone 6	Monthly	45.80	41.35	36.80	32.50	28.05	23.60	$18.95
	Weekly	12.90	11.85	10.71	9.65	8.45	7.30	6.15

bl

ATTACHMENT A

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern Pacific Transportation Company for Authority to Increase Passenger Fares Between San Francisco and San Jose and Intermediate Points.	Application No. 55131 (Filed August 23, 1974; amended January 10, 1975)

(For List of Appearances see Appendix A.)

O P I N I O N

In its original application the Southern Pacific Transportation Company (SP) sought authority to increase passenger fares applicable between San Francisco and San Jose and intermediate points[1/] by approximately 111 percent. The actual sought increase in the present level of SP's fares, which reflect a fuel cost adjustment authorized by Decision No. 83419 issued September 11, 1974 in Application No. 54614, amounts to approximately 96.4 percent.[2/] The amount of additional annual gross revenues anticipated from the proposed increase is about $3,497,000.

Antecedents

The filing of SP's request for a 111 percent fare increase triggered a series of events which precluded a timely hearing of Application No. 55131. A brief chronology of such incidents follows:

1. The Interim Subcommittee on San Francisco Peninsula Rail Commuter Service of the State Assembly Committee on Transportation held a series of public hearings relative to Application No. 55131 during September and October 1974.

1/ Hereinafter also referred to as SP's commute operations.

2/ SP's present San Francisco peninsula fares are set forth in its Local Peninsula Tariff D-No. 5, CPUC No. 20.

2. At the Prehearing Conference held October 10, 1974 the Commission staff announced that its investigation and study would require 14 months.
3. On January 10, 1975 SP requested ex parte authority to increase fares 20 percent pending hearing.
4. On January 30, 1975 the Office of the State Auditor General completed its analysis of SP's 1973 revenue and expense allocations.
5. On August 15, 1975 Price Waterhouse completed its review of SP's 1974 revenue and expense allocations.
6. On March 16, 1976 SP withdrew its request for ex parte interim relief.
7. In June 1976, the staff announced it was ready to present evidence any time after September 15, 1976.

Public hearings were held June 15, 1976 through October 18, 1976 before Examiner Gagnon at San Francisco. The matter was submitted on the latter date subject to the Commission's rulings on a petition for an environmental impact report and a staff motion requesting a Commission order directing SP to make its 1974-1975 federal and state income tax data available for inspection. The SP acquiesced to the staff's request; the motion is now moot. Extensive evidence was introduced by SP, protestants, the staff, and various other interested parties.

SP's Evidence

SP is a wholly owned subsidiary of the Southern Pacific Company and provides rail transportation primarily in the western and southwestern areas of the United States. SP operates a rail system of nine operating divisions comprising approximately 12,000 track miles and related facilities utilized principally for its freight service. The Western Division includes the west coast trackage in California from Sacramento at the north to San Luis Obispo at the south.

SP's passenger service between San Francisco and San Jose, commonly referred to as the West Bay corridor or peninsula, extends over approximately 47 miles of double mainline tracks and serves 24 intermediate points. The general level of service consists of 22 trains operated between San Francisco and San Jose each weekday, with about half that number of trains in service during weekends. The National Rail Passenger Corporation (AMTRAK) operates an intercity service over designated SP tracks under contractual agreement.

The commute operations are conducted with an equipment fleet of 52 suburban cars and 46 gallery (bi-level) cars powered by 23 diesel locomotives. Related switching and routine equipment servicing are performed at San Francisco and San Jose.

An SP vice-president testified to the reasons underlying the fare increase proposed in Application No. 55131. He stated that:

> "Southern Pacific's commute service... has suffered substantial losses in past years. . . . Although occasionally different areas of our operations may lose money, the commute service is the chronic loser. When losses do occur, it is management's responsibility to take action to eliminate those losses.
>
> "We believe that commute operations by privately owned railroad companies should provide sufficient revenues to cover costs. <u>If there is a failure of revenues to cover costs, then the service should be reduced accordingly or the service should be owned and operated by a public transit authority. We do not believe that subsidy payments are a solution and would find them unacceptable.</u>
>
> "<u>...we believe that the only way to determine the actual amount of diversion is to place the fares in effect and observe the result.</u>" (Emphasis supplied.)

Price Waterhouse & Co.

SP's 1973 adjusted results of commute operations were employed as justification for the originally proposed 111 percent fare increase. The accounting procedures used for developing the 1973 operating results were subjected to severe pre-trial criticism. Such preliminary criticism culminated in the State Auditor General's office conducting a special review of SP's records maintained to support the 1973 adjusted expenses as set forth in the application.

In response to the pre-trial opposition SP engaged the services of Price Waterhouse & Co. (PW) to conduct a thorough independent review and analysis of SP's accounting procedures for the commute operations. The results of PW's investigation and study are contained in a summary report (Exhibit 1) with supporting specific analyses provided in related supplementary reports (Exhibits 1-A, B, and C).

The results of PW's review and its recommended adjustments to SP's 1974 results of commute operations are reflected in the following summary statement:

TABLE 1

Statement Showing PW's Adjusted Results of SP's Commute Operations for the Year Ended December 31, 1974

Revenues	Amount	%
Passenger ticket sales	$ 5,087,100	90.1%
Imputed pass revenue	428,000	7.6
All other	128,100	2.3
Total revenues	5,643,200	100.0
Operating Expenses		
Maintenance of way and structures	775,600	13.7
Maintenance of equipment	2,155,000	38.3
Traffic	132,500	2.3
Transportation	5,552,400	98.4
General	647,900	11.5
Total operating expenses	9,263,400	164.2
Taxes, other than income	1,513,400	26.8
Interest expense	140,500	2.5
Total expenses	10,917,300	193.5
Excess of expenses over revenues from commute operations	5,274,100	

In conjunction with its analysis of SP's revenue and expense allocations PW made the following general observations relative to the carrier's accounting practices:

1. Financial Statements
The SP maintains its general ledger and accounting records in accordance with the uniform system of accounts prescribed by the Interstate Commerce Commission. No separate general ledger is maintained for commute operations. The financial statement of revenues and expenses from commute operations is prepared by the company's Bureau of Transportation Research. Data are compiled from various sources within the railroad, with a majority of the financial input supplied from the

accounting department and with statistical input provided by various operating departments.

Certain operating activities such as maintenance of way and structures and maintenance of equipment, may fluctuate substantially from year to year due to changes in the level of these activities.

There were no major nonrecurring programs during 1974 in the area of maintenance of equipment. Construction of the new passenger station in San Francisco, which commenced operations in July 1975, resulted in greater operating expenses in 1974. This construction project resulted in approximately $135,000 of additional maintenance of way and structures expenses and in increased switching and other expenses during 1974. Operations in 1975 may be expected to be charged with similar additional expenses prior to the opening of the new facility, and subsequently, with depreciation of the new facility, which is estimated to be approximately $35,000 annually.

2. Allocation of Common Expenses

SP's peninsula trackage is used for both passenger and freight services to local communities. Commute and freight operations make joint use of most of the mainline trackage and, to varying degrees, the related structures and facilities. Locomotive power utilized for both road haul and switching of commute trains is utilized in freight service to varying degrees. Support services for the commute operations are also performed "off commute line" at locations serving commute and other classes of transportation service, the most significant of which are:

a. Performance of heavy locomotive and car repairs at company shops located in Oakland, Sacramento, and Roseville, California, and at other repair facilities as deemed necessary.

b. Western division administration at the division headquarters in Oakland, California, and at other locations servicing the commute area.

c. System-wide administration of commute related activities in the various administrative departments of the railroad at the general offices in San Francisco, such as traffic, operating, mechanical, engineering, accounting, data processing, and other administrative departments.

3. Maintenance and Depreciation

Replacement accounting, as approved by the Interstate Commerce Commission, is used for certain roadway properties (rail, ties, ballast, etc.). Under this method, the cost of replacements in kind and of losses on retirements are charged to maintenance of way and structures expense in lieu of depreciation.

The composite depreciation method is used for depreciating all equipment. Under this method, the estimated average useful life of equipment is used to determine depreciation rates. No gain or loss is recognized on disposition of equipment.

All depreciable properties are depreciated using the straightline method.

4. Inventories

Fuel is charged to expense based upon average monthly purchase price. Materials and supplies are charged to expense at approximately the most recent purchase price. The expense of rebuilding spare parts is reflected in the expenses from commute operations at the time the rebuilt parts are used.

5. Internal Financing
No charge for intracompany financing, including financing of such items as working capital, deficit, and capital investments, has been reflected in the statement of revenues and expenses from commute operations. In essence, the statement reflects no return on the company's investment. No provision for income tax benefits resulting from the excess of expenses over revenues from commute operations or from investment tax credits generated by commute related qualified property has been reflected.

In Section III of the summary report PW determined SP's net investment in certain major commute assets as of December 31, 1974 to be:

TABLE 2

	Total	Commute %	Commute Amount
Roadway			
Tracks and right-of-way	$ 9,002,100	44.8%	$ 4,032,700
Passenger car yards	3,490,700	100.0	3,490,700
Buildings - stations	1,113,400	(1)	852,000
Maintenance facilities and fueling stations	2,476,900	(2)	535,400
Parking lots	112,300	100.0	112,300
Construction in progress	1,553,600	100.0	1,553,600
	17,749,000		10,576,700
Equipment			
Road locomotives	5,787,100	(3)	4,690,700
Passenger cars	9,627,300	100.0	9,627,300
	15,414,400		14,318,000
	33,163,400		24,894,700
Less Accumulated Depreciation			
Roadway			1,106,400
Equipment			7,509,600
			8,616,000
Net roadway & equipment			16,278,700
Liabilities			
Equipment trust certificates			2,429,200
Net investment in certain commute assets			13,849,500

(1) Various, based upon square footage of each station used for commute operations.

(2) 17.8% for Bayshore and 33.0% for San Jose based upon commute direct labor hours charged.

(3) Each class of commute locomotive is allocated based upon unit mileage in commute service to total unit mileage for the commute locomotives.

Road properties shown in Table 2 acquired prior to June 30, 1916 are stated at amounts determined by the Interstate Commerce Commission to represent approximate original costs. Subsequent additions and other properties are stated at cost and allocated to commute operations as indicated. Only property located in the West Bay corridor involved in commute service is reflected in Table 2. Equipment specifically assigned to commute service does not include equipment repair facilities outside the West Bay corridor or work equipment, switch engines, etc., partially utilized in commute operations.

To provide some insight regarding the impact of a rate of return on the net investment for commute operations PW noted that SP's actual rate of return on shareholders' equity experienced in 1974 was 6.3 percent and the stated cost of capital was 11 percent. To produce these levels of return on the $13,849,500 net investment in commute assets PW states the following additional revenues would be required:

TABLE 3

	6% (Return on Shareholders' Equity)	11% (Stated Cost Capital)
1974 actual commute revenues (Table 1)	$ 5,643,200	$ 5,643,200
Additional revenue required to produce stated return	6,936,100	8,320,900
Total revenue required	12,579,300	13,964,100
1974 actual commute expenses	10,917,300	10,917,300
Income before taxes	1,662,000	3,046,800
Taxes on income (50%)	831,000	1,523,400
Net income	831,000	1,523,400

In Exhibit 1-C (Appendix III) PW lists several general and specific recommendations designed to improve SP's accounting procedures. In certain instances PW's recommendations do not recognize nor give full consideration to well-established railroad accounting procedures observed for those more predominate areas of railroad activity other than commute operations. However, most of PW's recommendations have either been totally or partially adopted by SP and are now or will be in the near future fully implemented.

SP Commute Traffic

To evaluate the volume and growth of the potential commuter market an SP witness presented the 1950-1970 U.S. census, plus a January 1, 1976 estimate of the population residing in various peninsula communities considered to be within SP's commuter service area. A summary of the census follows:

TABLE 4

Year	Including San Francisco		Excluding San Francisco	
1950	1,121,090	100%	345,733	100%
1960	1,509,734	135	769,418	223
1970	1,940,860	173	1,225,186	354
Jan. 1, 1976	2,056,960	184	1,381,360	400

With the dramatic growth in population within the West Bay corridor one might reasonably expect SP to experience a like growth in its commuter traffic. Unfortunately, such a desirable result did not occur as more specifically shown in Table 5:

TABLE 5

SP Passengers (Rides Sold)
Carried - San Francisco Peninsula

Year	Total Passengers	± %	Year	Total Passengers	± %
1951	8,161,725	+ 3	1973 (6)	5,385,584	- 1
1952 (1)	9,200,623	+13	1974 (7)	5,523,185	+ 3
1953	8,719,615	- 5	1975 (8)	4,719,679	-15
1958	7,462,045	- 7	1976 v. 75		
1963	6,336,523	- 0.3	Jan.	395,750	-12
1966 (2)	6,893,130	+ 3	Feb.	349,773	- 8
1970 (3)	5,825,553	- 5	Mar.	407,525	- 0.02
1971 (4)	5,483,762	- 6	Apr.	345,841	-17
1972 (5)	5,439,053	- 1			

(1) 1952 - Greyhound strike March 1 - May 20.
(2) 1966 - Greyhound strike May 15 - June 25.
(3) 1970 - July 7 UTU (fireman) strike; September 15 Teamsters (PMT) December 10 four yard unions.
(4) 1971 - May 17-18 signalmen strike; July 24 - August 2 United Transportation Union strike.
(5) 1972 - March 10 (herders) strike.
(6) 1973 - Bart Daly City service commenced November 5.
(7) 1974 - Fuel crisis first 5 months; Muni Ry. strike March 8-15, pickets also closed down Bart service; AC Transit strike July & August; Bart Trans-Bay service commenced September 16; Greyhound strike November 18-25.
(8) 1975 - Recession affected traffic to some extent. October 17 work stoppage by railway clerks - commute service not operated.

Rate Increases

10/07/70 - 5% general fare increase.
12/18/71 - 10% general fare increase.
10/25/73 - 6% offset increase to recoup from railroad retirement tax change.
12/22/73 - 11% general fare increase (filed in October 1972).
9/18/74 - 8% offset increase account rise in cost of fuel.

Table 5 shows that, except for the temporary impact of several extenuating economic factors, SP has experienced a general decline in commuter traffic over the past 25 years. No factual proof was presented that would tend to support a contention of inferior service as the major cause for the loss of ridership by SP's commute service.

With the advent of multi-lane freeways such as U.S. 101 and 280 (September 1973) in the West Bay corridor plus the introduction of compact and intermediate size automobiles and mini-vans, the highly attractive and personalized home-to-work private or pool-car type of commutation became readily available to most of SP's patrons.3/ It is well known that commuters' riding habits are quite fixed and once public transit loses their patronage to the private sector it is very difficult to recapture such lost ridership. The reluctance of commuters to abandon their private motor vehicles in favor of public transit was clearly demonstrated by their response to the recent energy crisis and the current energy conservation programs.

Other economic factors beyond SP's control which had a detrimental effect upon the carrier's traffic are: (1) the significant industrial and commercial development within various peninsula communities which provide a local employment base; (2) the absence of like industrial and commercial growth in the immediate San Francisco area; (3) the increased competition for commuter patronage experienced by SP from public transit authorities and local private passenger bus operations; and (4) the general areawide level of unemployment coupled with the current economic impact of inflationary trends.

3/ SP's Exhibit 18 indicates that between 1954-1975 registered passenger cars in San Mateo and Santa Clara Counties increased by 130,000 (288%) and 501,000 (426%), respectively.

At the present time SP's commute operation serves approximately 8,000 daily commuters. It is doubtful that such a low level of patronage can reasonably be expected to fully sustain the current costs of SP's commute operations let alone afford the carrier an opportunity for profit.

SP's Present and Proposed Fares

The existing fare structure for SP's commute operations was established by Decision No. 82242 dated December 7, 1973 in Application No. 53666. The fare structure was then adjusted to reflect a railroad retirement tax offset fare increase of 6 percent previously authorized by Decision No. 82004 dated October 16, 1973 in Application No. 54267. By Decision No. 83419 dated September 11, 1974 in Application No. 54614 SP was authorized a fuel cost offset fare increase of approximately 8 percent. The fares established pursuant to this latter decision on September 18, 1974 are currently in effect.

A comparison of SP's present and proposed fares is set forth in Appendix B. To demonstrate that a 96.4 percent fare increase is justified, the fully allocated costs of SP's 1974 commute operations developed by PW (Table 1) were first adopted as the base rate year. The base rate year expenses were then indexed to April 1, 1976 levels. The adjusted results are:

TABLE 6

Estimated 1974 Adjusted Results of Commute Operations Under Present Fares and Expenses Indexed to April 1, 1976

Description	Current Results		Year 1974	Increase (Decrease) Amount	Percent	
Revenues						
Passenger 1/	$ 4,558,200	2/	$ 5,087,100	$ (528,900)	(10.40)%	
Station	44,500	2/	52,800	(8,300)	(15.72)	
Parking	63,700	2/	74,500	(10,800)	(14.50)	
Total revenues	$ 4,666,400		$ 5,214,400	$ (548,000)	(10.51)%	
Expenditures						
Indexed expenses & taxes	$12,011,800		$10,045,000	$ 1,966,800	19.58%	6/
Advertising program	-	2/	85,900	(85,900)	(100.00)	4/
Personal injuries (direct)	385,000	2/	9,800	375,200	-	
Depreciation, MofW&S	120,500	2/	89,100	31,400	35.24	
Depreciation, MofE	530,500	2/	547,000	(16,500)	(3.02)	4/
Equipment rents	49,100	2/	Cr. 800	49,900	-	
Equipment trust interest	172,500	2/	140,500	32,000	22.78	
Total expenditures	$13,269,400		$10,916,500	$ 2,352,900	21.55%	
Net Profit or (Loss)	$(8,603,000)		$(5,702,100)	$(2,900,900)	50.87%	

1/ Excluding constructive pass revenue.
2/ Actual for 12 months ending March 31, 1976.
3/ Annualized total based on 6 months ending March 1976.
4/ More than 100%.
5/ Actual as of April 1, 1976.
6/ Index of commute expenses to April 1, 1976:

	Amount Year 1974	Percent of Total	Percent Increase	Weighted Increase
Labor	$ 6,329,000	63.01%	20.96%	13.21%
Health & welfare	355,800	3.54	39.43	1.40
Federal payroll tax	1,002,500	9.98	19.66	1.96
City payroll tax	16,800	.17	10.00	.02
Fuel, train, and yard	505,600	5.03	25.81	1.30
Other material	754,100	7.51	22.54	1.69
Other expenses	587,000	5.84	-	-
Other taxes	494,100	4.92	-	-
Total	10,045,000	100.00%		19.58%

Table 6 shows that the updated 1974 adjusted results of commute operations reflect an operating deficit of $8,603,000 under present fares. This represents an increase of nearly $3,000,000 over the like operating deficit shown for the base rate year ended December 31, 1974. The SP's estimated results of commute operations under the proposed fares are:

TABLE 7

Estimated 1974 Adjusted Results of Commute Operations Under Proposed Fares and Expenses Indexed to April 1, 1976

1. Effect on Passenger Revenues

Description	Ridership Level			
	1974		Current	
Passenger revenues	$5,087,000	$5,087,000	$4,558,000	$4,558,000
Predicted ridership loss (2)	0.0%	20.4%	0.0%	20.4%
Retained passenger revenues	$5,087,000	$4,049,000	$4,558,000	$3,628,000
Proposed fare increase (96.4%)	4,904,000	3,903,000	4,394,000	3,497,000
Total expected passenger revenues	$9,991,000	$7,952,000	$8,952,000	$7,125,000
Net increase in passenger revenues	$4,904,000	$2,865,000	$4,394,000	$2,567,000

2. Estimated Adjusted Results of Operations

Passenger revenues (1)	$ 9,991,000	$ 7,952,000	$ 8,952,000	$ 7,125,000
Station	52,800	52,800	44,500	44,500
Parking	74,500	74,500	63,700	63,700
Total revenues	$10,118,300	$ 8,079,300	$ 9,060,200	$ 7,233,200
Total adj. expenses	10,916,500	10,916,500	13,269,400	13,269,400
Net profit or (loss)	$ (798,200)	$(2,837,200)	$(4,209,200)	$(6,036,200)

(1) Excluding constructive pass revenue.

(2) Predicted Ridership Loss

Fare Increase	Ridership Loss		
	Fare Zones 1-3	Fare Zones 4-6	Average
10%	4.0%	5.2%	4.5%
20	7.1	9.1	7.9
30	9.6	12.1	10.6
40	11.7	14.6	12.8
50	13.3	16.6	14.6
75	16.5	20.4	18.0
100	18.8	23.0	20.4

Under the proposed fares SP contemplates it will continue to experience operating losses amounting to $6,036,200. This anticipated operating deficit is $334,100 greater than the like operating loss incurred for the year ended December 31, 1974 (Table 6). With no allowance provided for predicted ridership loss due to the fare increase it is estimated that the net operating loss would be reduced to $4,209,200 or $1,492,900 less than experienced for the year 1974. It is contended that the 96.4 percent fare increase will be productive revenuewise, despite a 20.4 percent predicted ridership loss, because without such an increase the commute service is expected to incur a net operating loss of some $8,603,000.

The diversion model developed by SP for predicting ridership losses under various fare increases (Exhibit 22) was thoroughly explored and shown to be statistically reliable within the limits of its design. Similar diversion models were also presented by the Commission staff and the California Assembly Office of Research. Their diversion models, however, generally contain fewer or none of the San Francisco peninsula commute service data points reflected in the SP's diversion model and were not shown to be as statistically reliable. The SP diversion model will be adopted for this proceeding as a statistical guideline only and not as a substitute for empirical knowledge. This position is in accord with SP's qualified acceptance of diversion models as the sole criterion for predicting loss of traffic due to fare increases.

The results of SP's studies of the comparative daily costs per person to commute between San Francisco and various peninsula communities via the SP or by private auto (subcompact, compact, or standard) are presented in Exhibits 4, 5, and 6. The exhibits show that the daily cost per person to commute by private auto is generally higher for one person per car than the related

daily commute costs via the SP at both present and proposed fares. When 2, 3, or 4 persons ride in a single car the daily commute cost per person via the SP is generally higher at proposed fares than the related daily cost per person by private auto. At present fares the daily commute cost per person via the SP are both higher and lower than the like commute cost by private auto depending upon the number of passengers in excess of one riding per car.

In Exhibit 24 SP presented a comparison of daily commute costs via SP at the proposed level of fares with the like daily costs per person (including the value of dual purpose time foregone) when commuting by a private subcompact automobile. The comparison suggests that the daily cost per person to commute via SP at the proposed level of fares is significantly less than the like daily costs incurred by a person commuting by private subcompact automobile when the value of his personal time forgone to commute privately is included.

Several comparisons of SP's present and proposed fares with the like fares of other public and private utility transit systems were presented as further support of the sought relief. One such comparison shows that the general level of SP's present fares is substantially lower than the level of comparable fares applicable within several of the eastern metropolitan areas of the United States. Two other similar comparisons were made showing the present monthly costs to commute by Greyhound Lines, Inc. (Greyhound) or the Bay Area Rapid Transit District (BART) with the related monthly costs to commute via SP at present and proposed fares. The comparisons are summarized in Tables 8 and 9:

TABLE 8

Monthly Costs to Commute by SP Versus Greyhound Lines, Inc.

Between San Francisco And	Greyhound 20-Ride X 42 Trips	Greyhound 20-Ride Exceeds Present SP 5-Day Monthly By	Southern Pacific 5-Day Month	
			Present	Proposed
South San Francisco	$33.79	25.1%	$27.00	$52.25
San Bruno	35.76	32.4	27.00	52.25
Millbrae	35.76	32.4	27.00	52.25
Broadway	39.63	25.8	31.50	61.25
Burlingame	39.63	25.8	31.50	61.25
San Mateo	41.60	32.1	31.50	61.25
Hayward Park	41.60	32.1	31.50	61.25
Hillsdale	41.60	15.6	36.00	70.25
Belmont	45.47	26.3	36.00	70.25
San Carlos	45.47	26.3	36.00	70.25
Redwood City	45.47	26.3	36.00	70.25
Atherton	49.35	21.9	40.50	79.25
Menlo Park	49.35	21.9	40.50	79.25
Palo Alto	53.26	31.5	40.50	79.25
California Avenue	53.26	31.5	40.50	79.25
Mountain View	59.24	31.6	45.00	88.00
Sunnyvale	63.25	40.6	45.00	88.00
Santa Clara	67.16	38.5	48.50	95.00
San Jose	71.04	46.5	48.50	95.00

TABLE 9

Monthly Cost to Commute by SP Versus BART Between Similar Fare Zones

BART (42 Rides) Between Montgomery Street San Francisco And	BART	BART Exceeds Present SP 5-Day Monthly By	Southern Pacific Between San Francisco And	Present	Proposed
Mac Arthur	$33.60	24.4%	South San Francisco	$27.00	$52.25
Fruitvale	37.80	40.0	San Bruno	27.00	52.25
North Berkeley	37.80	40.0	Millbrae	27.00	52.25
Orinda	48.30	53.3	Broadway	31.50	61.25
			Burlingame	31.50	61.25
Bay Fair	48.30	53.3	San Mateo	31.50	61.25
Lafayette	50.40	60.0	Hayward Park	31.50	61.25
			Hillsdale	36.00	70.25
Hayward	50.40	40.0	Belmont	36.00	70.25
South Hayward	52.50	45.8	San Carlos	36.00	70.25
Pleasant Hill	54.60	51.7	Redwood City	36.00	70.25
Union City	56.70	40.0	Atherton	40.50	79.25
Concord	56.70	40.0	Menlo Park	40.50	79.25
			Palo Alto	40.50	79.25
Fremont	58.80	45.2	California Avenue	40.50	79.25
			Mountain View	45.00	88.00
			Sunnyvale	45.00	88.00
			Santa Clara	48.50	95.00
			San Jose	48.50	95.00

The present monthly cost to commute by Greyhound between San Francisco and various peninsula communities is shown in Table 8 to exceed the present related cost to commute via SP in all instances by 15.6 to 46.5 percent. Conversely, under SP's proposed fares the resulting monthly commute cost exceeds the present like cost via Greyhound in all instances by 33.7 to 68.9 percent. Table 9 indicates that under BART's one-way fares the resulting monthly cost exceeds the like cost via SP at present fare levels in all instances by 24.4 to 60.0 percent. As in the case with Greyhound, the monthly cost to SP commuters at proposed fares will exceed the current monthly cost via BART in all instances by 22 to 56 percent.

The percentage relationship between fare box passenger revenues and total operating expenses of several local transit agencies was also compared with the like experience of SP. A summary of this comparison is:

TABLE 10

Comparison of Percentage Relationship Between Fare Box Passenger Revenues and Total Operating Expenses of Local Transit Agencies and SP for Years 1974 and 1975

Transit Systems	Passenger Revenues As A Percent Of Total Operating Expenses	
	1974 (Actual)	1975 (Estimated)
Alameda-Contra Costa Transit District (AC)	51	34
Bay Area Rapid Transit District (BART)	18	29
Golden Gate Bridge, Highway and Transportation District	53	56
SP - Commute Service	50	-

Table 10 indicates that the fare box revenues of the several transit systems are grossly inadequate in relation to their respective operating expenses. It should be noted that while the operating deficits of the public transit agencies are absorbed by governmental funding or other direct tax sources no such public financial assistance is directly available to SP.

Environmental Impact Report (EIR)

As a state agency the Commission is subject to the provisions of the California Environmental Quality Act (CEQA) and the CEQA guidelines adopted by the Office of the Secretary for Resources. The Commission's compliance with CEQA and the guidelines is set forth in Rule 17.1 of the Commission's Rules of Practice and Procedure. The Commission policy stated in Rule 17.1(a)(1) is:

> "It shall be the general policy of the Commission to adopt and adhere to the principles, objectives, definitions, and criteria of CEQA and of the Guidelines promulgated thereunder in its regulations under its constitutional and statutory authority."

Pursuant to a Commission Order Instituting Investigation into a method of compliance with CEQA we concluded that:

> "...the policy provisions of CEQA (§§ 21000, 21001) apply to rate proceedings but the EIR provisions of (§§ 21100 et seq.) do not. The Commission will consider potential environmental impact in rate matters. When such issues are brought to light by the staff or other parties, appropriate findings will be made thereon. (Pub. Util. Code § 1705.)"4/

The Memorandum of Prehearing Conference issued by the assigned examiner in this proceeding announced that environmental data will be received. Accordingly, SP engaged the services of Reta/Nolte and Associates, Inc., a firm of consulting environmental engineers, to conduct studies required to determine the environmental impact of SP's fare proposal with respect to changes in traffic, air and water pollutants, noise, and fuel consumption. The results of the consultant's study are set forth in SP Exhibit 19.

The objective of the study was to provide a comprehensive environmental impact assessment, concentrating on effects of the assumed diversion of SP's passengers to other modes of

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4/ Decision No. 81237, 75 CPUC 134.

transportation. The basic study approach was to determine existing conditions and to forecast future conditions resulting from SP's passenger diversion, then compare the two in analyzing the impact of the diversion.

The West Bay commute corridor was taken to consist of SP's commute passengers and vehicular (auto and bus) traffic on Freeways 101 and 280 from San Jose to downtown San Francisco. Passengers diverted from SP were assumed to transfer to private vehicles (single and carpool) or one of several bus alternatives. The environmental impacts from these commute changes were analyzed.

Since an exact estimate of the passenger diversion associated with a particular fare increase is difficult to quantify, each environmental criterion was analyzed and forecasted on the basis of an assumed total diversion of SP's commuters. The projected effects of other magnitudes of diversion were obtained by using appropriate percentage factors.

For most criteria the impact of total diversion is negligible and smaller magnitudes of diversion cause proportionately smaller effects. A summary of the individual environmental analyses, as presented in Section IV of the report follows:

1. Traffic

   The results of the traffic study show that diversion of all commuters would increase average daily traffic (ADT) in amounts ranging from 3.0 percent to 6.2 percent on Route 280 and from 0.8 percent to 17.9 percent on Route 101. The more critical parameter, peak hour traffic, is estimated to increase (at total diversion) in amounts ranging from 14.5 percent to 23.1 percent on Route 280 and from 6.3 percent to 17.9 percent on Route 101. The large increases (at total diversion) in peak hour traffic on Route 280 (at Route 92 where the large increase occurs) are not indicative of a significant impact on service level because there is adequate

capacity to serve the current and total diversion traffic in this area. The most significant traffic impact occurs on both freeways in areas in which peak hour traffic is already at capacity and the diversion would result in substantial increases in peak hour volume. The most important such segments occur on both freeways north of the San Francisco County line. In these segments, the impact of total commuter diversion would be to aggravate stop-and-go (unstable traffic flow) operations during peak hours, and a spilling over of excess traffic into the hour following peak traffic, adding to congestion and delay.

2. Noise

The noise analysis results showed that the commuter diversion would not raise the 1975 noise level by more than a fraction of a decibel on Route 280 or 101, which will not be perceived by receptors along the highway routes. The analysis was performed in accordance with the National Cooperative Highway Research Program's Report 117 Handbook method, used by the federal highway administration and approved by EPA.

3. Water Quality

The results of the water quality analysis indicated that the percent increase in water pollutants from highway runoff from the diversion would be insignificant, ranging from 0.5 percent to 1.86 percent for all water pollutants considered. The analysis was based on the EPA report, Contributions of Urban Roadway Usage to Water Pollution.

4. Air Quality

The results of the air quality analysis showed that ambient air quality was not degraded significantly. Air pollution emissions along Routes 280 and 101 were found to increase by no more than 2 percent of existing traffic-generated emissions along

Routes 280 and 101, and the average increase was determined to be approximately 1 percent. The increase was also found to be less than 0.1 percent of total emissions for San Francisco, San Mateo, and Santa Clara Counties. The analysis was performed using data and methodology approved by the Bay Area Air Pollution Control District.

5. Fuel Consumption

The impact of the diversion on fuel consumption was determined to be insignificant since gasoline consumption would increase by only 0.3 percent in San Francisco, San Mateo, and Santa Clara Counties. In addition, reduced fuel consumption by SP, as a result of the passenger loss, would further reduce this figure.

6. Conclusions

The noise, air, water quality, and fuel consumption impacts caused by SP commuter diversion were found to be negligible, but they are all important, particularly when considered on a cumulative basis. The increase in peak hour traffic is the most significant impact created by commuter diversion. This effect, which varies directly with the percent of commuter diversion, is of concern only at freeway zones in which existing peak hour traffic is already at capacity.

Staff Evidence

The Commission's Finance and Accounts Division (F&A) and Transportation Division presented a series of staff studies in response to SP's proposed fare increase.

The F&A staff reviewed in considerable detail PW's work papers which support the results contained in its report (Exhibit 1). According to the staff's analysis of the $10.9 million in 1974 expenses developed by PW, $4.7 million is direct commute expenses, $3.0 million is derived from allocating systemwide expenses, and $3.2 million is derived from allocating other company expenses.

In its study, PW determined expenses directly identifiable with commute operations. Expenses common to commute and freight operations within the commute area were allocated on the basis of labor hours, gross ton miles, train miles, unit miles, or other appropriate methods. For expenses incurred in the commute area, such as dispatching trains, insurance, communication systems, and employee health and welfare benefits, etc., which could not be identified specifically, various allocation ratios were developed using the commute statistical data to comparable systemwide statistical data for allocating the commute portion of such expenses. Other commute related expenses are incurred outside the commute area such as equipment repairs, Western Division administration, and systemwide administration including support services. Many of these expenses are also common to commute and other classes of transportation service. PW allocated these common costs using methods "...which are considered reasonable in the circumstances, are generally consistent with the intent of the rules of separation prescribed by Section 1242 of the Code of Federal Regulations and are based on the principle of 'full absorption costing'."

Based on the methodology used, the staff believes that the commute operating results determined by PW represents the best information available on 1974 operations. In expressing this opinion, consideration was given to the deficiencies in SP's accounting records that required reconstruction of costs, the need to perform special studies of certain operations, and the fact that substantial amounts of commute expense result from allocation of expenses common to commute and other classes of transportation.

SP adopted the PW 1974 adjusted results of commute operations as the base rate year for demonstrating estimated results of operations under present and proposed fares with expenses indexed to April 1, 1976 (Tables 6 and 7). The staff questioned SP's failure to employ the 1975 adjusted results of commute operations which had assertedly been developed by SP based primarily on PW's recommended methodology. The staff correctly observes that a base rate year should be a recent year that has been critically reviewed and verified to be a normal test year. While the PW's 1974 adjusted results of commute operations properly assigned a pro rata share of total SP system expenses to the commute operation under fully allocated cost procedures, the F&A staff contend that, standing alone, such procedure does not guarantee consistent reasonable results when used to separate less than one percent of the total system expenses assignable to the commute operation. An F&A staff comparison of the 1974 and 1975 adjusted results of commute operations follows:

TABLE 11

Estimated Results of Commute Operations for Years Ended December 31, 1974 and 1975 and as of April 1, 1976

Item	1974[1]	1975[2]	Est. Current Results April 1, 1976[3]
Revenues			
Passenger ticket sales	$ 5,087,100	$ 4,630,700	$ 4,558,200
Imputed pass revenue	428,000	428,000	-
All other	128,100	113,400	109,600
Total revenues	5,643,200	5,172,100	4,667,800
Operating Expenses			
Maintenance of ways and structures	775,600	903,000	1,058,900
Maintenance of equipment	2,155,000	2,264,600	2,479,800
Traffic	132,500	48,300	55,200
Transportation	5,552,400	6,430,400	7,006,700
General	647,900	993,200	733,800
Subtotal	9,263,400	10,639,500	11,334,400
Less: Nonrecurring[4]	(340,200)	(558,200)	-
Total operating expenses	8,923,200	10,081,300	11,334,400
Taxes, other than income	1,513,400	1,621,800	1,712,200
Interest expense	140,500	168,200	172,500
Rental for locomotives	-	56,700	50,300
Total expenses	10,577,100	11,928,000	13,269,400
Net loss from commute operations	4,933,900	6,755,900	8,601,600

1/ Price Waterhouse less nonrecurring expenses.
2/ Reported 1975 adjusted by staff.
3/ PW indexed to April 1, 1976 - unadjusted by staff.
4/ For ratemaking purposes the staff recommends that 1974 and 1975 PW adjusted results of operations be further revised for nonrecurring expenses as follows:

Item	1974	1975
Total expense per PW	$10,917,300	$12,486,200
Less: Depreciation expense on fully depreciated locomotives	(117,800)	(101,300)
Nonrecurring expenses:		
Relocation of S.F. passenger station and yards	(135,400)	(235,300)
Advertising	(86,000)	-
Cost of PW study and report	-	(221,600)
Total expenses less adjustments	10,577,100	11,928,000

(Red Figure)

If F&A's proposed adjustments for nonrecurring expenses are adopted SP contends that PW expenses for ties, rails, and personal injuries should also be revised to reflect an established normalized annual basis. The F&A proposed adjustments for nonrecurring expenses have merit provided the expenses are annualized as recommended by SP. Since the net effect of F&A's and SP's suggested adjustments to PW's 1974 and 1975 adjusted results of commute operations are largely offsetting, the adoption of PW's 1974 adjusted results of commute operations without such further revisions as the base rate year is not unreasonable.

SP states that its 1975 system freight operations reflect a recession year while the peninsula commute service remained rather stable. Any efforts to separate less than 1 percent of the total 1975 system expenses assignable to the commute service would make the resulting commute expenses vulnerable to the staff's admonition of "grave distortions". SP contends that the PW 1974 adjusted results of commute operations represents a reasonable normal test year. For this reason the 1974, in lieu of available 1975, adjusted results of commute operations were employed by SP as the base rate year.

The Transportation Division staff developed what it termed the avoidable above-the-rail costs of SP's commute service for a constructed 1975 test rate year.[5/] The staff explains that it used avoidable above-the-rail costs in its rate study because the magnitude of SP's proposed fare increase is assertedly tantamount to abandonment of service. The staff's so-called avoidable above-the-rail results of commute operations are:

5/ The staff defines avoidable above-the-rail costs as the "total expenses that the company could have avoided if it did not operate the passenger train service in the test year 1975".

TABLE 12

Staff Estimate of the Avoidable Above-the-Rail Results of SP's Commute Operations for a Constructed 1975 Test Year

Description	Amount
Revenues	
Passenger ticket sales	$ 4,630,700
Station revenue	44,500
Parking	63,700
Equivalent pass revenues	453,700
Total revenue	5,192,600
Expenses -	
Maintenance of way and structures	99,600
Maintenance of equipment	1,403,400
Traffic	88,300
Transportation	5,312,700
General	-
Taxes	144,800
Total expenses	7,048,800
Profit or (Loss)	(1,856,200)

The passenger revenue shown in Table 12 is computed from the 1975 ticket sales. The total passenger revenue shown in Table 12 compares favorably with the April 1, 1976 passenger revenues employed by SP (Table 7). The station revenue of $44,500 reflects SP's annualized total based on actual revenues for a six-month period ending March 1976. Similarly, the parking revenues represent 12 months' actual experience for the period ending March 31, 1976 (SP Exhibit 21). In developing the commute expenses for the test year the staff explains that emphasis was placed on labor and allied payroll expenses since such items comprise about 76.7 percent of the total expenditures. The staff did not determine labor expenses directly from SP's accounts. Such calculations were predicated upon effective labor agreements and a constructed number of SP employees whose activities were in varying degrees assignable to the peninsula commute operations. (Decision No. 82242 dated December 7, 1973 in Application No. 53666.)

The staff's 1975 test year shows that the avoidable above-the-rail expenses for SP's commute operations amount to $7,048,800 which, in turn, exceeds estimated total revenues by $1,856,200 ($2,309,900 when equivalent pass revenues of $453,700 are excluded).

Staff Alternative Fare Proposal

The Commission's Transportation Division staff recommends that SP be authorized a 25-percent fare increase. The staff's proposal is conditioned upon SP's maintenance of the present level of commute service for a period of at least one year in order to afford public transit agencies time to implement their plans.

The staff concedes that its alternative fare proposal will not return revenues sufficient to cover the out-of-pocket (variable) costs of service. Staff Exhibit 33 (Graph II) shows that a fare increase of approximately 85 percent is required to offset the staff's so-called avoidable above-the-rail expenses of $7,048,800.

The staff was unable to explain how the establishment of its proposed level of fares, which are admittedly confiscatory, may be found to be justified. While the staff endeavored to show that its proposed 25-percent increase would raise SP's passenger fares to the approximate level of Greyhound's existing fares, such comparison was subsequently shown to be understated.

SP Rebuttal Evidence

Through cross-examination and rebuttal evidence SP established that the staff's so-called avoidable above-the-rail results of commute operations for the 1975 test year were substantially understated. First, SP demonstrated that the term avoidable costs as generally employed by the Interstate Commerce Commission includes (RT 1604):

> "...all expenses which would be incurred by a carrier in providing a service which would not be incurred, in the case of discontinuance, if such service were discontinued or, in the case of abandonment, if a line over which such service was provided were abandoned. Such expenses shall include but are not limited to all cash inflows which are foregone and all cash outflows which are incurred by such carrier as a result of not discontinuing or not abandoning such service. Such foregone cash inflows and incurred outflows shall include (i) working capital and required capital expenditures, (ii) expenditures to eliminate deferred maintenance, (iii) the current cost of freight cars, locomotives, and other equipment, and (iv) the foregone tax benefits from not retiring properties from rail service and other effects of applicable Federal and State income taxes."

The staff's results of commute operations for a constructed 1975 test year (Table 12) do not include all the expense items classified as avoidable costs as that term is used and generally understood in rail discontinuance or abandonment proceedings. Actually, the staff's test year represents an effort to show the direct out-of-pocket (variable) costs of SP's commute service. The term "variable costs" was defined (RT 1715) as those costs which vary directly with output over a given period of time.

SP developed from staff work papers that a substantial amount of direct labor was erroneously omitted from the staff's test year computations. SP contends that various additional cost items should also be reflected in the staff's test year. As a minimum, SP would have included all short-term variable costs measurable over a period up to five years. However, if it was intended to include all medium-term variable cost elements measurable over a period of

five to ten years in the staff's test year, SP would include several additional categories of expense which are considered to be partially variable and are so allocated by variability factors established by the Interstate Commerce Commission (Statement No. ICI-73). SP explained that, while variable cost of operations would be less than the avoidable costs of operation determined under procedures established by the Interstate Commerce Commission, its proposed variable costs for the commute service exceed the staff's avoidable cost presentation shown in Table 12 hereof by a substantial margin. A summary of SP's suggested adjustments in the staff's constructed 1975 test year follows:

TABLE 13

Summary of Proposed Adjustments to the Staff's Commute Operating Expenses for the 1975 Test Year

Expense Items	SP's Proposed Adjustments	Total Adjusted Expenses
A. Total Expenses for Test Year (Table 12)		$ 7,048,800
Adjustments		
Direct Variable Cost Basis:		
1. Labor	$ 509,000	509,000
2. Total Direct Variable Expenses	-	7,557,800
B. Short-Term Variable Cost Basis (less than 5 years):		
3. Equipment Depreciation	546,000	
4. Personal Injuries	89,700	
5. Interest-Equipment Trusts	168,000	
6. Additional Variable Expenses	1,312,700	1,312,700
7. Total Short-Term Variable Exp.		8,361,500
C. Medium-Term Variable Cost Basis (5 to 10 years):		
8. Maintenance of Way & Structures	281,000	
9. Maintenance of Equipment	199,800	
10. Transportation	302,700	
11. General	540,100	
12. Additional Variable Expenses	1,323,600	1,323,600
13. Medium-Term Variable Exp.		9,685,100
14. Annual Charges for Ties, Rails, & Injuries	442,900	442,900
15. Total Medium-Term Variable Expenses (Lines 6, 12, & 14)	3,079,200	
16. Total Medium-Term Variable Exp.		10,128,000
D. Adjusted Operating Loss for Staff's 1975 Test Year:		
17. Staff Computed Operating Loss (Table 12)		1,856,200
18. Direct Variable Operating Cost Deficit ($7,557,800 - $5,192,600)		2,365,200
19. Short-Term Variable Operating Cost Deficit ($8,361,500 - $5,192,600)		3,168,900
20. Medium-Term Variable Operating Cost Deficit ($10,128,000 - $5,192,600)		4,935,400

Table 13 shows that the operating deficit of $1,856,200 computed by the staff for a constructed 1975 test year should be adjusted to include omitted labor costs of $509,000 and thereby reflect an estimated direct variable operating loss of $2,365,200. Under SP's short-term variable cost adjustment the operating deficit would be increased to $3,168,900. If the medium-term variable costs of operation were to be used for constructing fares, SP would increase the staff's test year expenses by $3,079,200 and show a related operating loss of $4,935,400 for the 1975 test year. The total medium-term adjusted variable operating expenses of $10,128,000 amounts to about 76.3 percent of SP's fully allocated total current expenditures of $13,269,400 shown in Table 6. This percentage relationship is within the 80-percent range which SP contends is what should normally be expected.

In suggesting amendments to the staff's test year SP states it should be clearly understood that it is not recommending the variable cost procedure as an appropriate basis for constructing its peninsula passenger fares. It is the carrier's firm position that the fare structure for its commute service should reflect fully allocated costs.

Public Transit Agencies

Pursuant to Sections 730.3 and 730.5 of the Public Utilities Code a filing notification of Application No. 55131 was mailed on February 5, 1976 to the various public transit agencies involved. Representatives from the State Metropolitan Transportation Commission (MTC), San Mateo County Transit District (SamTrans), Santa Clara County District, and the City and County of San Francisco (Muni), actively responded to the Commission's invitation to participate in this matter.

There is a unanimity of opposition among the public transit agencies to SP's proposed fare increase. There is also general agreement that any adjustment in SP's fares should be deferred until at least a public transit plan for the West Bay corridor has been completed and submitted to the State Legislature for approval. It is asserted that any other course of action might have a serious adverse impact upon actual and potential ridership within the corridor before the transit agencies have had an opportunity to implement their plans.

A project director for MTC introduced a series of exhibits pertaining to mass transit plans for the San Francisco peninsula. MTC's Exhibit 26 contains excerpts from SB 283 dated January 27, 1975 which provides:

> "Sec. 14(a) The Metropolitan Transportation Commission shall conduct a study on alternative forms of transit development within the West Bay Corridor. . . . The study shall be directed to determine the feasibility of:
>
> "(1) Upgrading the Southern Pacific Transportation Company's commuter service to a transit service level.
>
> "(2) Extending the San Francisco Bay Area Rapid Transit District's service from Daly City to San Jose.
>
> "(3) Extending the San Francisco Bay Area Rapid Transit District's service to the San Francisco International Airport and upgrading the Southern Pacific Transportation Company's service from Millbrae to San Jose.
>
> "(4) Implementing other transit alternatives.
>
> "(b) The commission shall submit a report on its study to the Legislature not later than January 1, 1977."

In response to the Legislature's directive the MTC activated a Peninsula Transit Alternatives Project (PENTAP). A list of approximately 25 preliminary transit alternatives were developed by MTC. We understand that the list was subsequently reduced to five transit plans, one of which, having been recommended to the Legislature for approval, provides:

Alternative B

1. Improvement of the SP service as the principal element of corridor transportation including:
   (a) Improvement in schedule reverse peak hour service (southbound a.m. and northbound p.m.) and service to peninsula stations.
   (b) Modest off-peak schedule improvements.
   (c) Modest improvements to stations and parking facilities.

   All improved service should be operated by the SP under a purchase of service or other agreement; airport connection to be provided by shuttle bus.
2. Retention of the present terminal location in San Francisco at 4th and Townsend Streets but provision for improved collector/distributor service with buses serving major destination areas in San Francisco.
3. Provision for supplemental express bus service on Highways 280 and 101 using "trunk and branch" operations serving peninsula communities, San Francisco and San Jose airports, and San Francisco.
4. Provision for improved facilities for bus movement on Highway 101 from Highway 380 north to Highway 280, either through construction of additional lanes for high-occupancy vehicles within existing right-of-way or designation of existing lanes as bus-preferential lanes.

5. Inclusion of direct bus access ramps to the Transbay Terminal in any future connection of Highway 280 from 3rd Street to the Bay Bridge.

6. Coordination of corridor service with the local transit systems in Santa Clara and San Mateo Counties to insure adequate feeder service and to meet the needs of the transit dependent population.

7. Provision for public acquisition of the 3.4 mile segment of SP right-of-way at the north end of San Bruno branch if SP is successful in its current application for service abandonment.

In expressing its concern over the adverse impact that SP's fare proposal may have upon public transit ridership, MTC passes no judgment upon the financial needs of SP.

Representatives from SamTrans expressed an urgent desire to conduct negotiations with SP relative to developing a mutually satisfactory joint program to implement transit plans to the extent that they involve SP's commute service. Such negotiations would include an arrangement to provide SP with whatever subsidy was shown to be justified. SamTrans feels that various forms of subsidy appear open to negotiation, but a form of purchase service agreement appears to be most feasible.6/

SP's current position is that a subsidy, in any form, is totally unacceptable. To date, SP is willing to discuss only those arrangements necessary for an outright sale of its peninsula commute service to an appropriate public authority. SP contends this is the only viable alternative open for discussion other than a fare structure designed to fully cover the cost of performing a

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6/ The Mills-Alquist-Deddeh Act authorizes transit districts and other operators to file claims with the transportation planning agencies for funds to support public transportation systems. For claims filed to cover subsidy payments to railroad corporations see Sections 99260.5 and 99267 of the Public Utilities Code.

desired level of service. Certain transit authorities have suggested that the assistance of this Commission be solicited to monitor the discussions by the various principals involved.

Other Protestants

The Peninsula Commute & Transit Committee (PCTC) played an active role throughout the proceeding on behalf of its membership. Its opposition to SP's fare proposal in general supports the position taken by the several transit agencies. The opposition of the other protestants is directed more toward the magnitude of the sought increase rather than being opposed to any modest upward adjustment in fares.

An interested party requested that the present age limitation of 26 years for student discount fares be eliminated. While this proposal has some merit it is not justified at this time.

Discussion & Recommendations

The destiny of SP's commute service is now in jeopardy. It has experienced a steady loss of riders over the past 25 years. The current demand for SP's commute service appears to be very inelastic. While SP's fares are substantially lower than Greyhound's present peninsula fares and in many instances are less than the cost to commute by private automobile, there is no indication of any diversion of traffic from such other modes to SP. Except for a possible inconvenience factor, due to location of SP's fixed termini, the only apparent reason for the inelastic demand is the relatively fixed riding habits of peninsula commuters.

It has been established that the level of SP's current passenger fares do not generate sufficient revenues to cover the direct variable costs of service. To this extent the fares are below a zone of reasonableness. When such depressed levels of fares are

shown to exist it can generally be said that the carrier has established a prima facie case to either increase its revenues through appropriate increases in fares or reduce operating expenses by reductions in service. In the case at hand, the only immediate viable sources for generating additional revenue are a limited fare increase supplemented with public transit subsidy and/or a purchase service agreement with the existing transit authorities.

SP contends that the only solution to the revenue needs of its commute operations is to increase fares on a fully allocated cost basis. SP's position is that if the public does not wish to support the commute service it demands such service should then be taken over by public authority. SP has apparently pursued this latter course of action without success. As an alternative, it now proposes to increase fares by approximately 96.4 percent. SP estimates a fare increase of this magnitude would cause a 20.4 percent loss in riders. This would certainly expedite the demise of its commute service. We note that a fare increase of 96.4 percent will not raise revenues sufficiently to offset an estimated fully allocated operating deficit of $6,036,200 (Table 7) for the rate year ended April 1, 1976.

The MTC's PENTAP report was submitted on December 30, 1976 to the Legislature for approval. The plan calls for the upgrading of rail and bus service within the West Bay corridor for the next 15 to 20 years. The plan contemplates the improvement of SP's passenger rail service as the principal element of corridor transportation.

The local peninsula transit agencies have made a genuine effort to negotiate with SP for a joint partnership arrangement to implement the public transit plans for the peninsula. The record shows SP's management has declined to discuss any joint transit program calling for subsidy financing or purchase of service agreements by the transit districts.

The Commission is charged with the responsibility for public transportation service on the San Francisco Peninsula. It is clear that rail commuter service is an indispensable part of such transportation. It must therefore be preserved and every available avenue must be explored to assure its survival and improvement. It is recognized that not all of the reasons expressed by SP for being reluctant to enter into a contract with the transit authorities are without merit. Conversely, only actual negotiations with the transit authorities will determine whether SP's reluctance can be overcome.

It is essential for the survival of the peninsula commute service that any fare increase that may be authorized at this time be held to an absolute minimum permissible within a given zone of reasonableness. Accordingly, the staff's results of commute operations for a constructed 1975 test year, as adjusted by SP to reflect various levels of variable costs will be adopted as a basis for recommending a level of alternative fares. An overall fare increase of 70 percent is required to fully offset the short term variable costs of SP's commute operations amounting to $8,361,500 and at the same time provide a modest margin of $390,180 to compensate for a potential diversion of traffic due to the upward adjustment in fares (Table 14).

The imposition of the full 70 percent fare increase at one time is likely to have a significant adverse impact upon the level of riders in the immediate future. It may also preempt whatever plans the transit agencies may have for establishing fares once the PENTAP approved transit plans are implemented. A single fare increase of 70 percent imposed at this time may also encumber the effectiveness of any negotiations that may be held between SP

and the appropriate transit authorities relative to the implementation of PENTAP. Under the circumstances dual fare increases of 40 and 30 percent, spread over a reasonable period of time, are justified. An immediate increase of 40 percent would establish a level of passenger fares for SP's commute service comparable to the existing fares of BART as well as Greyhound's present and proposed fares. The recommended fares are set forth in Appendix C.

The decision of when or if the 30-percent portion of the dual fare increase ought to become effective should be deferred for a reasonable period of time to afford SP and the transit agencies an opportunity to reach an agreement relative to the implementation and funding of PENTAP as finally approved by the Legislature. Such additional time contemplates that negotiations will be pursued diligently and in good faith. Should the parties desire the Commission to monitor the expected negotiations between the transit authorities and SP management, as suggested at the hearings, the Commission would be pleased to entertain a request for such participation.

The estimated results of SP's commute operations under the recommended dual upward adjustment in fares are:

TABLE 14

Estimated Results of Direct and Short-Term Variable Costs Of Commute Operations Under a Recommended Dual Fare Increase of 40 and 30 Percent for a 1975 Test Year

Description	Amount 40% Fare Increase	70% Fare Increase
Passenger Revenue (Present Fares)	$ 4,630,700	$4,630,700
Imputed Pass Revenue	453,700	453,700
Total Revenues Subject to Fare Increase	5,084,400	5,084,400
Proposed Fare Increase	2,033,760	3,559,080
Total Increased Revenues	7,118,160	8,643,480
Station Revenue	44,500	44,500
Parking Revenue	63,700	63,700
Total Revenues	7,226,360	8,751,680
Direct Variable Expenses	7,557,800	7,557,800
Direct Variable Profit or (Loss)	(331,440)	1,193,880
Short-Term Variable Expenses	8,361,500	8,361,500
Short-Term Variable Profit or (Loss)	(1,135,140)	390,180

An immediate 40-percent increase in SP's peninsula passenger fares is expected to provide additional revenue that will approximate the direct variable costs of service. However, it is anticipated that any subsidy and/or purchase of service agreement that may be forthcoming from the expected SP negotiations with the transit agencies in the immediate future will, of course, be predicated upon the principle of "full absorption costing". Should it become necessary to permit the second phase of the dual fare increase of 30 percent to become effective, Table 14 indicates the resulting additional revenue will more than cover the short-term variable costs. Some revenue erosion may occur due to a loss of riders when the 30-percent fare increase is activated. This loss of riders is not expected to be as great under a dual upward adjustment in fares, spread over a period of several months, than the loss of riders which may occur if the full impact of a 70-percent fare increase were imposed at one time.

Findings

1. The SP's San Francisco peninsula passenger fare structure was established by Decision No. 82242 dated December 7, 1973 in Application No. 53666. By Decision No. 82004 dated October 16, 1973 in Application No. 54267 SP's fares were increased 6 percent to offset a railroad retirement tax increase. A fuel cost offset fare increase of approximately 8 percent was authorized by Decision No. 83419 dated September 11, 1974 in Application No. 54614, which are the fares currently in effect.

2. While SP's passenger traffic has been declining over the past several years, the evidence does not show that this decline in riders is directly attributable to either the quality of service or the level of fares.

3. SP now seeks authority to increase its passenger fares by 96.4 percent to provide additional revenue of $3,497,000, which does not include increased constructed pass revenue amounting to approximately $891,067.

4. The 1974 results of commute operations developed by PW have been shown to be a normal test rate year. The subsequent adjustments to the 1974 base rate year proposed by the Commission staff and SP were also shown to be proper while not critical to the relief found justified herein.

5. PW's 1974 adjusted results of commute operations show that SP experienced a net operating loss of $5,274,100. In order to experience a 6-percent return on SP's net investment in certain peninsula commute assets of $13,849,500, additional revenue amounting to $6,938,100 would be required.

6. Under present fares SP's estimated adjusted results of commute operations for the 1974 base year, indexed to April 1, 1976 expense levels, show a net operating loss of approximately $8,603,000.

7. Under proposed fares SP's estimated adjusted results of commute operations for the 1974 base year, indexed to April 1, 1976 expense levels, indicate a net operating loss of $6,036,200. With no allowance for loss of traffic due to the fare increase the estimated operating deficit would be reduced to $4,209,200.

8. It is SP's position that the peninsula commute operations should provide sufficient revenue to cover full costs, otherwise service should be reduced accordingly or owned and operated by public transit authority. SP does not believe subsidy payments are a solution and would find them unacceptable.

9. It has been established that the present level of SP's passenger fares are generally 15 to 46 percent lower than the like peninsula fares of Greyhound. The monthly cost to commute via SP is from 24 to 60 percent less than the like monthly commute cost via BART whose fare box revenue for 1975 was only 29 percent of its operating expenses and which is the recipient of substantial transit subsidy funds. The evidence further shows that the cost to commute by private auto between San Francisco and the peninsula is in many instances more expensive than commuting via SP. The SP peninsula fares are also generally lower than like rail passenger fares in the eastern portion of the United States.

10. The San Francisco peninsula demand for transit service via the several available transportation modes is relatively inelastic. This would appear to be especially true of SP's remaining patronage.

11. The staff determination of so-called avoidable above-the-rail expenses, as adjusted by SP, reflect a reasonable estimate of the out-of-pocket (variable) costs of SP's commute operations for a constructed 1975 test rate year.

12. The direct-, short-, and medium-term variable costs of SP's commute operations for a 1975 test year amount to $7,557,800, $8,361,500, and $10,128,000, respectively. Total passenger revenue for the 1975 test year amount to only $5,084,400, including imputed pass revenue of $453,700.

13. To the extent the existing level of SP's passenger fares do not provide sufficient revenue to cover the direct variable costs of service, such fares are below a minimum zone of reasonableness.

14. The evidence shows that under the proposed fare increase of 96.4 percent, with a concomitant 20.4 percent predicted loss of traffic, total passenger revenue will amount to $7,125,000. With no provision for loss of traffic the resulting total passenger revenue amounts to $8,952,000. With total adjusted expenditures of $13,269,400 for the 1974 base year, indexed to April 1, 1976, and the resulting operating deficits (Finding 7) the evidence strongly suggests that SP's fare proposal would not be economically productive if its predicted loss of traffic actually occurs.

15. The staff concedes that its proposed alternate fare increase of 25 percent will not provide revenue sufficient to cover the variable costs of SP's commute service.

16. The staff evidence shows that a fare increase of approximately 85 percent is required to offset the $7,048,800 unadjusted variable expenses computed by the staff for a constructed 1975 test year if the SP's predicted traffic loss factor of 20.4 percent is employed.

17. SP's diversion model for predicting traffic loss due to fare increases has been shown to be statistically superior to the other diversion models of record.

18. MTC's PENTAP report to the State Legislature, dated January 1977, recommends the improvement of SP's service as the principal element of West Bay corridor transportation.

19. The thrust of the several public transit agencies' opposition to SP's fare increase is its potential adverse impact upon riders and the resulting debilitating effect upon any effort to implement corridor transit plans as finally approved by the Legislature.

20. Local peninsula transit districts have urged SP management to enter into joint negotiations for the purpose of implementing peninsula transit plans involving SP's commute operations. Except for the sale of its commute service to public authority, SP has refused to discuss any transit plans calling for its acceptance of a subsidy and/or a purchase service agreement.

21. At the present level of traffic SP's commute operations cannot reasonably be expected to generate revenues sufficient to cover the fully allocated costs of service.

22. The evidence shows that dual fare increases of 40 and 30 percent, spread out over a reasonable period of time to afford SP and the transit agencies an opportunity to engage in meaningful negotiations, have been shown to be fully justified.

23. An immediate fare increase of 40 percent will have relatively no adverse impact upon traffic, and the resulting fares will be comparable to those of Greybound and BART.

24. A 40-percent increase in fares will provide SP with approximately $2,033,760 in additional annual revenue.

25. The second fare increase of 30 percent, previously found justified, should be deferred until it can be determined whether (1) the position of SP stated in Findings 8 and 20 has changed sufficiently to make the 30-percent fare increase no longer necessary; (2) SP and the public transit agencies have reached an agreement which now makes a further fare increase of 30 percent undesirable or otherwise unnecessary; or (3) the transit agencies involved have accorded this matter such low priority as to make it imperative that the 30-percent fare increase be allowed to go into effect.

26. In Decision No. 81237 (1975) 75 CPUC 134, we held that the EIR provisions of CEQA do not apply to rate proceedings, but the policy provisions do apply. In following those policy provisions in this application we have received extensive environmental impact data.

27. The environmental effects with respect to changes in traffic, air and water pollutants, noise, and fuel consumption were thoroughly analyzed and forecasted on the basis of assumed total abandonment (diversion) of SP's peninsula passenger service. The effects of other magnitudes of diversion were projected in ten percent increments.

28. Assuming 100 percent diversion of SP's peninsula passenger service it was shown that the environmental effects with respect to changes in air and water pollutants, noise, and fuel consumption were negligible.

29. At total diversion the highest increase (14.5% to 23.1%) in peak-hour traffic occurs on Route 280 in an area where there is adequate capacity to serve current and total diversion traffic. The most significant traffic congestion is anticipated to occur on existing freeway Routes 101 and 280 in areas north of the southern San Francisco county line where peak-hour traffic is already at capacity. In these route segments the impact of total diversion would tend to aggravate stop-and-go traffic during peak hours causing some spilling of excess traffic over into nonpeak-hour traffic.

30. The imposition of a 40-percent increase in SP's peninsula passenger fares, previously found justified herein, is not tantamount to authorizing the abandonment of service and is expected to generate only a minor diversion of traffic.

31. With only a relative minor amount of traffic diversion anticipated pursuant to a 40-percent increase in SP's peninsula passenger fares, the environmental effect thereof with respect to changes in traffic, air and water pollutants, noise and fuel consumption are expected to be insignificant.

Conclusions

1. SP should be granted initial authority to increase its San Francisco peninsula passenger fares by not more than 40 percent.

2. Whether a 30-percent second phase increase of a dual fare adjustment found justified in this proceeding should be allowed to become effective involves issues which should first be resolved by separate decision and order of the Commission.

3. In view of the length of time required to advance Application No. 55131 to hearing and final disposition, the 40-percent increase in SP's passenger fares granted by the order herein should be permitted to become effective on not less than five days' notice to the Commission and to the public.

4. This is an application for a rate increase; the EIR provisions of CEQA do not apply to rate proceedings.

O R D E R

IT IS ORDERED that:

1. The Southern Pacific Transportation Company is authorized to establish the level of increased passenger fares set forth in Appendix C attached to this decision.

2. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

3. The Commission will, upon request, determine by separate order whether a 30-percent second phase increase in fares found justified herein should become effective.

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

5. The joint petition to require the preparation of an environmental impact report filed by The Peninsula Commute and Transit Committee and the Planning and Conservation League is denied.