FINANCE DOCKET NO-30400

EC

SERVICE DATE

FEB 28 1984

INTERSTATE COMMERCE COMMISSION

Decision No. 4

Finance Docket No. 30400

SANTA FE SOUTHERN PACIFIC CORPORATION-CONTROL-SOUTHERN PACIFIC TRANSPORTATION COMPANY; MERGER-THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY AND SOUTHERN PACIFIC TRANSPORTATION COMPANY

Decided: February 17, 1984

SUPPLEMENTAL INFORMATION REQUEST

On December 22, 1983, we published in the Federal Register, 48 FR 56660, a notice of intent to file an application under 49 U.S.C. 11343 et seq., seeking authorization of Santa Fe Southern Pacific Corporation's (SFSP) proposed acquisition of control of Southern Pacific Transportation Company (SPT) and the Atchison, Topeka and Santa Fe Railway Company (ATSF). Prospective applicants announced their intention to file their application within approximately three months of November 22, 1983.

Pursuant to 49 CFR 1180.4(c)(2)(v), we are requesting information supplementing that specifically required by 49 CFR 1180, to enable us to evaluate fully the proposed consolidation. Therefore, we are requesting information about the benefits, competition, and costs of the proposed acquisition.

The application as initially filed may include some of this evidence. To avoid duplication applicants should cross reference appropriate portions of the application. Except for the exhibit covering interchange data, no format for exhibits is being imposed in this request.

Benefits. We must weigh anticipated public benefits against any harm to determine whether, overall, a consolidation will be consistent with the public interest. We have recognized as a public benefit the improved service that may result from the operation of formerly independent carriers in single-line service or as a single system of carriers. [Union Pacific-Control-Missouri Pacific, Western Pacific; 366 I.C.C. 459 (1982) (Union Pacific); and Norfolk Southern Corp.-Control-Norfolk & W. Ry., 366 I.C.C. 171 (1982)(NS)]. While the costs of handling new and rerouted traffic and the savings expected to be derived from the elimination of duplicate facilities are generally quantified, the direct benefits to the shipping public expected to result from consolidation have not been. Any evidence that is presented to show that shippers will benefit from the new service applicants expect to provide should quantify both the nature and amount of those benefits.

Applicants' estimates of revenues and costs attributable to new and rerouted traffic should be segregated to show the net benefits to the public and consolidating parties. The reasons underlying the benefits to the public should be specifically stated, and quantified (for example, how much of the benefits are attributable to cost savings to the public, newly available routes, or other causes). An estimate should be made of the extent to which private benefits to the applicants will ultimately accrue to the public.

Competition. We are particularly interested in the competitive aspects of the proposed merger of SPT and ATSF. More specifically, we are interested in the impact upon competition in California, Arizona, New Mexico, and Texas, and also on the competitive relationship of the Central and Southern Corridors and the routes between the Pacific Northwest and Southern California. Evidence should be presented showing the competitive effects of the merger on traffic, operations, fixed facilities, labor forces, and shippers in the following areas.

The applicants' three routes in California, namely, the SPT and ATSF routes through the San Joaquin Valley and the SPT route known as the Coast Route from San Francisco to Los Angeles would be under single ownership following merger. Evidence should be presented concerning the impact of the merger along the ATSF and SPT lines in this corridor. This includes SPT branch lines that connect with its lines from San Francisco and Oakland to Ogden, UT, on the one hand, and the Los Angeles Basin (including San Bernardino and W. Colton) on the other hand, and not only the San Francisco-Los Angeles lines but also the Colton-Palmdale Cutoff. This also includes the ATSF lines from Richmond, CA, through Stockton to Barstow, the Barstow-Los Angeles line through San Bernardino, and all main and branch lines in the Los Angeles Basin. Evidence should be presented showing the changes, if any, in the functions and levels of use of the ATSF yards and shops at Barstow, San Bernardino, and Los Angeles, and the SPT yards and shops at W. Colton and Los Angeles.

A second area of possible concern (related to the first) is the competitive impact of the proposed merger on the traffic and service over the so-called "Inside Gateway Route" provided jointly by the ATSF, Union Pacific Railroad Company (UP), and Burlington Northern Railroad Company in competition with the single-line service presently provided by SPT. Evidence should show the extent (if known) to which UP competes with these routes over its single-line route from the Pacific Northwest to Los Angeles via Ogden and Salt Lake City.

The third area of possible concern encompasses the competitive impact of the proposed merger on SPT and ATSF routes from Los Angeles to, from, and through major cities in Texas, namely, El Paso, Amarillo, Dallas-Ft. Worth, and Houston-Galveston. The SPT lines from El Paso to Vaughn, NM, and the lines of both SPT and ATSF through Phoenix, AZ should be included in this evidence.

A fourth area of concern is the competitive impact of the proposed merger on the relationship of the Central and Southern Corridor routes. Specifically, this evidence should address: (1) the changes, if any, in the relative use of each corridor, (2) the impact on the so-called "Tucumcari Route" between El Paso and St. Louis via Kansas City, (3) the impact on the Denver & Rio Grande Western Railroad Company; and (4) the competitive impact on railroads connecting with SPT and/or ATSF at Kansas City, Topeka, St. Louis, Memphis, and all interchange points in Texas and Louisiana, including Mexican border crossing points.

Applicants should also provide evidence on the impact of the merger on the competitive alternatives of shippers presently served by both carriers. In connection with the four areas of concern above discussed, applicants shall prepare the exhibit described at 49 CFR 1111.2(b)(1)(ii)(1980) as a supplement to the application. This exhibit should be marked "SE (for supplementary exhibit)-1."1/

Data shown in the interchange tables shall be for the year 1983 to more accurately reflect improved economic conditions and possible cancellations of joint rates and through routes. For this reason, submission of Exhibit SE-1 will require compilation of data not usually available until the end of the first quarter of a calendar year. The due date for submission of this exhibit will be July 2, 1984.

The data shown in Table B should be limited to interchanges between applicants and each connecting carrier totaling 50 or more carloads for each pair of origin and destination States. Only one copy of Table B shall be filed with the Commission. It need not be served on interested persons unless requested. Copies shall be maintained at applicants' headquarters for inspection by interested parties. Applicants must also file with the Commission one copy of a machine readable tape containing only the data shown in Table B. This tape will be returned to applicants when the Commission issues its decision, and no use of the tape will be made by the Commission other than for the purpose of adjudicating the application.

Applicants shall provide copies of their current freight train classification listing, blocking guides, and schedules for major terminals as defined for Exhibit SE-1 above. Applicants shall also provide a map of the continental United States indicating clearly the lines of applicant carriers in their true relation to each other, with names of principal points of interchange and major gateways served by applicants. The map should measure approximately 5' x 7', and should be backed in such a way as to stand on its own, for use in a hearing.

Costs. Application of the Rail Form A costing methodology by applicants in merger proceedings is appropriate in projecting costs expected to arise from the rerouting of both diverted and

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1/ All other exhibits filed in response to this decision should be numbered sequentially beginning with Exhibit SE-2.

nondiverted traffic following consolidation.[2] A Rail Form A determination of variable costs is the most accurate representation of applicants' post-merger environment. This is not necessarily the case however, for protestants.

The Commission has revised its accounting regulations in Methods Accounting for Track Structures, 367 I.C.C. 157 (1983), amended in No. 36988, Alternative Methods of Accounting for Railroad Track Structures (not printed), served January 18, 1984. This decision changes the method of accounting for track structure from retirement - replacement - betterment (RRB) to ratable depreciation accounting (DA). Reporting on a DA basis will begin with the 1983 annual report, Form R-1, to be filed with the Commission by March 31, 1984. We request that all cost work performed by applicants (regardless of its purpose) use DA. The financial data submitted for the year 1983, and all subsequent pro forma financial data used to satisfy 49 CFR 1180.9 should also reflect this accounting change. Additionally, applicants' variable costs should be adjusted to reflect return on road and equipment property at the current before-tax cost of capital level. This includes both existing plant and equipment and any new plant or equipment required as a result of the consolidation. Variable costs include cost of capital at the embedded debt rate. Therefore it will be necessary to adjust variable costs to reflect the current cost of capital.

Updating costs to the most current level possible should be accomplished by employing those cost updating guidelines prescribed in Complaints filed -§229- Staggers Rail Act of 1980, 365 I.C.C. 507 (1982). These guidelines are currently being employed by both shipper and carrier interests in numerous proceedings before the Commission.

If a traffic study is being prepared, then the following costing methodology should be followed to the extent possible. Some traffic diverted to applicants' lines as a result of this consolidation may be multiple car, trainload or even unit train in nature. The economies associated with such operating characteristics should be reflected in applicants' costing methodology. This would be accomplished at least in part by the application of certain adjustments to specific Rail Form A cost categories as determined by the Commission in Ex Parte No. 270 (Sub-No. 4), Investigation of Railroad Freight Rate Structure - Coal, served March 14, 1975.

Finally, once applicants have identified shipments as being divertible to their lines, the variable cost associated with the handling of each shipment or aggregates should be calculated. This would include variable expenses as well as the return on road and equipment property at the current pre-tax cost of capital. The applicants should demonstrate the difference between pre-merger operations through a comparison of individual railroad

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[2] Burlington Northern, Inc. - Control & Merger-St. L., 360 I.C.C. 784, 1105 (1980); and Union Pacific at 796.

Rail Form A unit costs applied to pre-merger statistics with composite Rail Form A unit costs applied to post-merger statistics.

We will leave the detailed structuring of the costing presentation to the applicants. However, there are certain elements of that structure that must be required to ensure a meaningful evaluation of the cost of the divertible traffic. In No. 36114 (Sub-No. 1), Potomac Electric Power Company v. Consolidated Rail Corporation (not printed), served April 7, 1982, the Commission sought certain cost and/or cost-related data to aid in developing and analyzing costs. A copy of the appropriate section (Operating Parameter portion of Section 3 Summary of Operating Characteristics) of that appendix is attached. It should be noted that the summary was designed primarily for coal traffic. Therefore, certain items may not be applicable in all cases. To the extent applicable, the items appearing on the list of operating parameters should be provided and used by applicants in developing their costing submission dealing with divertible traffic.

Applicants have stated that they would file the application within approximately 3 months of November 22, 1983. The supplemental information requested here shall be filed by March 31, 1984. A decision accepting or rejecting the application will be issued within 30 days of that date, pursuant to 49 CFR 1180.4(c)(7). In light of this, SPT and ATSF may want to postpone filing their application until March 31st. This can be accomplished by modifying their notice of intent to file.

This action will not significantly affect either the quality of the human environment or energy conservation.

It is ordered:

1. Applicants shall file the information as requested above.

2. This decision shall be effective on the date it is served.

By the Commission, Chairman Taylor, Vice Chairman Andre, Commissioners Sterrett and Gradison.

James H. Bayne
Acting Secretary

(SEAL)

APPENDIX

Operating Parameters

(Only data specifically applicable to the issue movement should be provided.)

1. Name of mine or origin, and power plant or destination.
2. Milepost at origin; milepost at destination.
3. Annual Tons (Tariff Minimum, Actual and Projected).
4. Date of first shipment (if new movement).
5. Alpha-Numeric car type.
6. Weight of lading per car (in pounds).
7. Tare weight of car (in tons to one decimal).
8. Identity of car owner.
9. Identity of locomotive owner.
10. Car lease rental (railroad supplied cars).
11. Locomotive lease rental (if any).
12. Present rate.
13. Proposed rate.
14. Initial rate and effective date.
15. Amounts (or percent) of rate escalation and dates (if any).
16. Cars per train on per shipment.
17. Loaded miles (each railroad) (identify any way miles included in loaded miles).
18. Empty miles if applicable (each railroad). If not applicable, indicate empty factor.
19. Length of origin loop track (if any). Indicate whether included in lines 17 or 18.
20. Length of destination loop track (if any). Indicate whether inlcuded in lines 17 or 18.
21. Number of locomotive units (by segment).
22. Loading hours and basis of calculation.
23. Unloading hours and basis of calculation.
24. Cycle hours.
25. Number of train sets required for movement (unit trains only).
26. Trips per year per train set (unit train only).
27. Crew districts, loaded.
28. Crew districts, empty.
29. Turnaround crews (specify).
30. Locomotive units required (by type and horsepower for each railroad).
31. Cars required (railroad-owned for each railroad).
32. Cabooses (for each railroad).
33. Spare margin for locomotives.
34. Spare margin for cars (railroad supplied).
35. Spare margin for cabooses.
36. Switching by road haul locomotives (specify).
37. Switching by yard locomotives (specify).
38. Helper service (locomotives, miles, time).
39. Helper crew (hours for crew cycle on this movement).
40. Location of interchanges (indicate which are non-through).
41. Location of inter-intratrain switches.
42. Joint facility payments (indicate basis for computation).