

CANADIAN PACIFIC RAILWAY

Memorandum Respecting Revenues and Costs of Trains 202 and 203
Between Montreal and Megantic for a Constructive Year Commencing
April 1, 1965.

The revenues and variable costs of the Montreal-Megantic service (Trains 202-203) for a constructive year commencing April 1, 1965, are shown in the attached statement. This statement shows a deficiency of revenues below variable costs of \$73,400.

The bases of these figures and the methods used in developing them are described below.

Revenue:

Passenger:

Passenger revenues were computed on the basis of the actual number of revenue passengers carried during the period April 1 to October 24, 1965, and the estimated revenue passenger carryings for the balance of the year, and the average revenue per passenger carried earned by Canadian Pacific as developed on the basis of two one-week samples of passenger revenues, taken between July 13-19, 1965 and August 23-29, 1965. The estimated revenue passenger carryings for the period October 25, 1965 to March 31, 1966 were arrived at by reducing the actual number of revenue passengers carried during the period October 25, 1963 to March 31, 1964 by the same ratio as occurred during the period August 1 to October 24, 1965 compared to a similar period in 1964.

Variable Cost:

The variable cost was developed on the basis of the actual operation of the Montreal-Megantic service for the months of April through September and the projected operation for the remainder of the constructive year ending March 31, 1966, and reflects the terminal wage rates of the agreements in effect during 1965. An allowance for the cost of fringe benefits and supervision has been made for the period under consideration.

Fuel:

Calculated on the basis of Canadian Pacific, Eastern Canada, average fuel cost per R.D.C. mile during 1964, and the estimated R.D.C. miles attributable to this service during the year under study.

Wages of Enginemen and Trainmen:

Calculated on the basis of miles claimed by crews assigned to this service and the terminal wage levels of the wage agreements in effect during 1965.

R.D.C. Repairs:

Calculated on the basis of the estimated R.D.C. miles attributable to this service and Canadian Pacific, Eastern Canada, average R.D.C. repair costs per mile for 1964.

Train Other Expenses:

Calculated on the basis of Canadian Pacific, Eastern Canada, average train supplies and expenses per R.D.C. mile during 1964, and the R.D.C. miles attributable to this service. Included in this category of expense is cleaning, lighting, heating and lubricating of cars.

Variable Road Maintenance:

Calculated on the basis of the number of gross ton miles in the Montreal-Megantic service and the variable cost of track maintenance, including depreciation, as developed by multiple regression analysis.

General and Communications:

Included in this category of expense is the cost to the Company of pensions and unemployment insurance and the variable cost of rail communications and other general expenses. Pensions and unemployment insurance costs amount to over 55% of this category of expense. This item of expense was assumed to have the same degree of variability as all other operating and maintenance expenses, and was developed based on 1964 experience.

Equipment Depreciation:

Calculated on the basis of one R.D.C. unit being assigned to this service, the Canadian Pacific average gross investment per R.D.C. unit, and a depreciation rate of 3.88% as authorized by the Board of Transport Commissioners for Canada.

Cost of Money:

Calculated on the basis of one R.D.C. unit being assigned to this service, the Canadian Pacific system average net investment per R.D.C. unit, and a gross cost of money of 11.4% before income taxes. The gross cost of money was also applied to the variable portion of investment in road property attributable to the Montreal-Megantic service.

Estimated Revenues and Variable Expenses, Trains
202-203, between Montreal and Megantic for a con-
structive year commencing April 1, 1965.

Gross Revenue

Passenger Rail Fares

\$142,900

Item of Expense

Fuel	\$ 14,906
Enginemen's Wages	25,164
Trainmen's Wages	35,830
R.D.C. Repairs	69,781
Train Other Expenses	18,314
Variable Road Maintenance	4,785
General and Communications	19,082
Equipment Depreciation	7,910
Cost of Money - R.D.C.	16,803
- Road Property	<u>3,680</u>

Total \$216,255

say \$216,300

Net Annual Earnings (Deficit) (\$73,400)