

ORIGINAL

Decision No. 43816

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
certain railroads and connecting)	
highway carriers and water lines)	Application No. 29921
for authority to increase freight)	(First Supplemental)
rates and charges (1948).)	

Additional Appearances

Chas. E. Blaine, for California Wool Growers Association, California Cattlemen's Association and Western States Packers Association, protestants.
 Archie L. McColl and J. Richard Townsend, for California Portland Cement Company, interested party.

FIRST SUPPLEMENTAL OPINION

In this proceeding, California rail lines and connecting highway and water carriers seek authority to establish increased freight rates and charges. Decision No. 42715 of April 12, 1949, permitted an interim general increase of 4 per cent. By supplemental application, an 8 per cent increase is sought in place of the interim adjustment.

Public hearings were had at San Francisco before Commissioner Craemer and Examiner Mulgrew.

The proposed increase is the same as the further increase granted by the Interstate Commerce Commission for interstate traffic in western territory (other than Zone 1 of Western trunk-line

¹ Maximum increases of 6 cents per 100 pounds for fresh fruits, vegetables and melons and 4 cents per 100 pounds for sugar and forest products under the interim adjustment are proposed to be increased to 9 and 6 cents, respectively. Increases for iron ore, coal and coke not subject to maximum increases under the interim adjustment are proposed to be limited to 35 cents per net ton or 39 cents per gross ton, except for lignite coal for which the maximum increases sought are 18 cents per net ton or 20 cents per gross ton. No adjustment is sought in rates and charges for demurrage and for perishable protective service.

territory). For other interstate traffic, the authorized adjustments were increases of 9 and 10 per cent in lieu of temporary increases of 5 and 6 per cent. The interstate increases were authorized by a decision issued August 2, 1949, in Ex Parte No. 168, Increased Freight Rates, 1948. This decision and the extensive record on which it was based have been made a part of the record in the supplemental application here under consideration.

The interstate increases were made effective September 1, 1949. On that same date the non-operating employees of the railroads were put on a 40-hour week. Applicants submitted estimates of operating results for the year 1949 based on actual experience prior to September 1 and on appraisals of the effect of the increased rates and reduced work week for the balance of the year. The estimates include the revenues which would have been derived from the sought increases on California traffic and from like increases on intrastate traffic in the other states had all such increases been made effective concurrently with the interstate adjustment.

In connection with their calculation of the additional expense of the 40-hour week, applicants assumed that, generally, facilities which had been closed on Sundays would be closed both Saturdays and Sundays, and jobs which had been working not more than 48 hours would be reduced to 40 hours, that the work output in maintenance of equipment under the 40-hour week would be equivalent to the work output for 44 hours under the 48-hour week, and that with respect to office employees there would be no loss of output under the shorter work week. The witness, however, stated that it may be six months to a year before the full effect of the 5-day week is known.

Applicants also submitted estimates of operating results for the year 1949 with and without the rate increases authorized by the Interstate Commerce Commission and the added expenses resulting from the work week changes. The figures of the four major California lines for system-wide operations follow:

		<u>Revenues</u>	<u>Operating Expenses (Including Taxes)</u>	<u>Net Operating Income</u>
Santa Fe	(1)	\$482,213,000	\$436,067,000	\$46,146,000
	(2)	478,688,000	432,499,000	46,189,000
Southern Pacific	(1)	417,162,000	392,503,000	24,659,000
	(2)	413,572,000	388,915,000	24,657,000
Union Pacific	(1)	389,864,000	375,426,000	14,438,000
	(2)	386,154,000	372,225,000	13,929,000
Western Pacific	(1)	40,321,000	37,872,000	2,449,000
	(2)	39,917,000	37,591,000	2,326,000

(1) With changes in rates and work week.

(2) Without changes in rates and work week.

Rates of return calculated by applicants on the basis of the foregoing tabulation and compared with their experience for 1948 and 1947 are as follows:

	<u>1949</u>		<u>1948</u>	<u>1947</u>
	(1)	(2)		
Santa Fe	4.15	4.15	6.32	5.18
Southern Pacific	2.19	2.19	3.23	2.82
Union Pacific	1.51	1.46	4.39	4.02
Western Pacific	2.04	1.94	4.20	4.21

(1) With changes in rates and work week.

(2) Without changes in rates and work week.

With respect to California intrastate operations, applicants submitted estimates of additional annual revenues based on the volume of the intrastate traffic handled during the first six months of 1949. These estimates purport to show that the further increases here sought would produce annually \$447,081 for Santa Fe, \$1,333,737 for Southern Pacific, \$50,994 for Union Pacific and \$75,776 for Western Pacific.

With respect to intrastate expenses the applicants contended that it is not possible to make an accurate segregation. They explained that intrastate and interstate movements are handled with the same equipment and facilities and by the same personnel. Line-haul and switching operations, they said, ordinarily include both classes of traffic. They further stated that investment in road and equipment in the State of California cannot be separated as to the classes of traffic making use thereof and that any attempt to approximate the property investment devoted exclusively or in part to intrastate traffic would be meaningless and without adequate factual background. They said they were not seeking increases in intrastate revenues sufficient to give a fair return on the value of their properties devoted to California intrastate freight service but rather to obtain from the intrastate freight rates and charges revenues sufficient to enable a proper contribution to maintenance and operating costs.

Applicants indicated that the increases in intrastate expenses were greater than interstate because intrastate operating costs are relatively higher than interstate. Their witnesses attributed the higher costs chiefly to the expenses incurred in terminal services and in local train movements. In the generally shorter intrastate hauls, terminal expenses assertedly are a more important factor of the total cost. Similarly, local train operations with their attending higher expense, the witnesses said, are involved to a greater extent in intrastate movements.

Showings of operating results made by applicants other than the four major lines indicate that the earning position of these applicants is less favorable than the major lines.

Applicants' witnesses said that they had continued their program of improvement and modernization of facilities and equipment. Depreciation reserves, they claimed, were inadequate to defray equipment purchases under present prices. Applicants argued that earnings must be sufficient to attract new capital and to meet obligations assumed in the replacement of facilities and equipment.

A traffic witness for applicants reaffirmed previous testimony that to the extent that intrastate rates are not adjusted to the authorized interstate level the carriers' revenues would fall short of the amount found necessary by the Interstate Commerce Commission in Ex Parte No. 168, supra, and that there were numerous instances of competitive intrastate and interstate movements where like increases would be necessary to avoid undue discrimination. Conceding that there might be some diversion of traffic occasioned by increasing the rail rates, he predicted that the volume of intrastate rail traffic would remain at its existing level because of the growth of population and of business activity in the state.

With respect to carrier competition, the traffic witness said that applicants were studying the feasibility of adjusting certain class and commodity rates where the competition with highway carriers was particularly keen, provided the adjusted rates would result in increased net revenues for the traffic involved and at the same time make a satisfactory contribution toward overhead and profit. He also said that applicants were giving consideration to the reestablishment of rate relationships which had been disturbed through application of previous percentage increases. More specifically he referred to applicants' class rates which, he said,

had been "out of line" with the rates of highway carriers for some time. The witness stated that applicants intended to reduce their class rates to a competitive level in order to maintain volume and remain in the "merchandise business."² He referred to Case No. 4308, Investigation of Rates, Rules, Regulations and Practices of all Common, Highway and City Carriers, in which the state-wide rate structures of the rail line applicants and the highway carriers are being reviewed. The record thus far made in Case No. 4308 includes representations that many of the rail lines' commodity rates are unduly depressed. Some of these rates are even lower now than they were in 1930, despite the general increases of the past few years. These rates stem from reductions made many years ago to meet then unregulated highway carrier competition.

Granting of the sought authority was opposed by various shipper interests. Representatives of canneries, livestock producers and meat packers, sugar refiners, and rock, sand and gravel producers asserted that further increases for their commodities would reduce rather than increase applicants' revenues. They claimed that higher rail rates would divert traffic to truck transportation, for-hire and proprietary, and curtail production and distribution. These objections are similar to those offered by shippers in previous applications involving general increases. Some of the shippers also questioned the propriety of the use of applicants' estimates of additional expense for the 40-hour week until these figures could be tested by actual experience thereunder.

²

This was accomplished effective December 1, 1949, by Supplement No. 87 to Pacific Southcoast Freight Bureau Tariff No. 255-D, Cal.P.U.C. No. 130, I.C.C. No. 1475, J. P. Haynes, Agent.

Shippers' objections run principally to commodity rates and are based on potential losses of rail traffic. This is a revenue proceeding and we must therefore give consideration to the over-all requirements of the applicants. It is not an appropriate proceeding in which to determine the extent to which adjustments of commodity rates may be required to meet carrier or market competitive conditions. Authorization of the proposed increases on commodity rates should not be withheld for that reason.

The record is convincing that the increases granted by Decision No. 42715 of April 12, 1949, are not sufficient to offset increased operating expenses and will not produce excessive rates of return. Applicants have demonstrated their need for the additional revenues here sought. It is apparent that applicants' estimates of increased revenues would not be fully realized because of the reductions made in class rates, the probable reductions in commodity rates to meet competitive conditions and the likelihood of some diversion of traffic to other means of transportation. It is clear that under the sought increases their earnings would not be excessive.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and find that, excepting as to class rates, the proposed increases in rates and charges are justified. In authorizing these increases we do not make any finding of fact as to the reasonableness or lawfulness of any particular rate or charge.

O R D E R

Public hearings having been had in the above-entitled supplemental application, and based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that, excepting as to class rates, the increases involved in the above-entitled supplemental application be and they are hereby granted; and that the increases herein authorized may be established on not less than five (5) days' notice to the Commission and to the public.

IT IS HEREBY FURTHER ORDERED that the increases herein authorized shall apply in connection with basic freight rates and charges (including rates and charges for the transportation of milk and cream in passenger service), except class rates and rates and charges for demurrage and perishable protective services. Basic freight rates and charges are defined as those in effect immediately prior to the effective date (May 2, 1949) of increases authorized by Decision No. 42715 of April 12, 1949, whether established by order of the Commission or voluntary act of the petitioning carriers, including any rates held under suspension and investigation orders.

IT IS HEREBY FURTHER ORDERED that applicants be and they are hereby authorized to depart from the provisions of Section 24(a) of the Public Utilities Act to the extent necessary to effect the increases herein authorized.

IT IS HEREBY FURTHER ORDERED that applicants be and they are hereby authorized to publish the increased rates and charges in the form authorized by the Interstate Commerce Commission. To the extent departure from the terms and rules of Tariff Circular No. 2 of this Commission is required to accomplish such publication authority for such departure be and it is hereby granted.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants will never urge before this Commission in any proceeding under Section 71 of the Public Utilities Act, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority contained herein shall expire unless exercised within sixty (60) days after the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects the above-entitled supplemental application be and it is hereby denied.

This order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 14th day of February, 1950.

R. T. Anderson
Justin J. Calver
Joseph T. Ladd
Harold P. Kula
Kenneth Pottier
Commissioners