

ORIGINAL

Decision No. 46083

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Railway Express Agency, Incorporated,)
a corporation, for an order allowing) Application No. 32397
an increase in express rates and)
charges.)

Appearances

E. M. Prince and Noel Dyer, for applicant.
J. A. Montgomery, for California Grape and
Tree Fruit League, and A. E. Valentine,
for Interstate Bakeries Corporation,
protestants.

O P I N I O N

Railway Express Agency, Incorporated, is an express corpo-
ration operating over the lines of railroads and other common car-
riers. By this application, it seeks authority to establish
increased intrastate express rates on less than statutory notice.

Public hearing of the application was held at San Francisco
on July 5, 1951, and at Los Angeles on July 9, 1951, before
Commissioner Huls and Examiner Jacopi. Evidence was introduced by
applicant's general auditor and its regional traffic manager and by
shipper representatives.

Applicant's intrastate rates were last adjusted in August,
1950, when increases were authorized amounting to 10 percent on
class rates and 21 percent on commodity rates.¹ Applicant now seeks
an interim increase of 20 cents per shipment on all of its express
traffic with the exception of less carload shipments of milk, cream
and related products, newspapers and corpses and shipments moving

¹ See Decisions Nos. 44718 and 44719 of August 29, 1950, in Appli-
cations Nos. 30724 and 31360, respectively.

under carload rates.² It is alleged that the sought interim relief is necessary to offset substantial wage increases recently experienced.

Applicant's general auditor testified that new labor agreements had been negotiated with representatives of the company's employees under which wages were increased by 12.5 cents per hour effective February 1, 1951. A further increase of six cents per hour was granted effective April 1, 1951, he said, under terms of the agreements providing for quarterly adjustment of wages under a specified cost of living formula.³ Corresponding adjustments were also made in the wages of supervisory and other employees not covered by labor agreements. Exhibits were introduced by the auditor showing that the cost of the wage adjustments, including payroll taxes and retirement contributions, amounted to \$386,691 per year for applicant's California intrastate operations.⁴ This figure was based upon the number of straight and overtime hours worked by the employees in the year 1950. The auditor also submitted exhibits in which he calculated that additional revenue amounting to \$396,050 per year would be produced by the sought interim increase based on the volume of traffic handled in the year 1950.

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The sought increase corresponds with the interim adjustment of interstate express rates authorized by the Interstate Commerce Commission's order of April 13, 1951, in Ex Parte No. 177, Increased Express Rates and Charges, 1951. Applicant has indicated that the full amount of the advance deemed necessary in its California intrastate rates would be sought when the final conclusions on the interstate rates are reached in Ex Parte No. 177, supra.

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The record shows that the additional wage increase granted the employees under the cost of living formula was approved by the administrator of the Economic Stabilization Agency under Wage Adjustment Order No. 1, dated April 24, 1951.

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The exhibits showed that the auditor excluded from the calculations of the amount of the wage adjustment the increases in wages assignable to the movement of traffic hereinabove indicated on which the interim increase is not sought.

On cross-examination, the auditor admitted that the traffic volume for the first five months of the year 1951 had declined about 15 percent below that for the corresponding period of 1950 and that therefore the foregoing revenue and wage figures were somewhat overstated. Assertedly, the amount of the overstatement of the wage adjustment was not substantial because it was impossible to reduce labor costs in direct proportion to the drop in traffic without impairment of the service. However, he introduced calculations indicating that if the labor costs could be reduced to that extent the annual amount of the wage increase would be \$328,688 and that the additional revenue produced by the interim increase based on the reduced 1951 traffic volume would amount to \$336,642 per year. The auditor pointed out that the increased revenue also involved payment by applicant of \$7,280 to its agencies operated on a commission basis and that the rate adjustment sought herein would provide but little more revenue than that necessary to offset the cost of the wage increase and the payments to the agencies.⁵

Exhibits showing the financial results of applicant's intrastate operations were also submitted by the auditor. The exhibits indicated that for the year 1950 the operating expenses exceeded the revenues by \$373,714. As shown in the exhibits, the expenses amounted to \$3,858,018 and the revenues were \$3,484,304. The corresponding operating ratio was 110.7 percent. However, the last increase authorized in applicant's rates, supra, did not become effective until October 30, 1950, and consequently the beneficial effect thereof was reflected in the foregoing operating results for a period of only two months. For the first four months of the year

⁵ According to the witness, a total of 375 of the 462 express agencies maintained by applicant in California are compensated on the basis of ten percent commission on the gross revenues realized on shipments forwarded from and received at such points.

1951, the exhibits showed that the revenues and operating expenses amounted to \$1,052,742 and \$1,159,947, respectively. The revenues for this period included the effect of the 1950 advances in rates and the expenses were adjusted by the auditor to reflect throughout the period the higher labor costs resulting from the wage adjustment hereinabove referred to. The record shows that operating economics made during the four-month period and prior thereto also were given effect in the calculations.⁶ Projection of the figures submitted for the first four months of 1951 to reflect a 12-month period results in revenues amounting to \$3,158,226 and in operating expenses of \$3,479,841. The corresponding ratio would be 110.2 percent. On this basis, the present revenues would be insufficient by \$321,615 to cover applicant's own operating expenses for the year 1951 and no funds would be available to pay the railroads for the substantial services they perform in handling the express traffic.⁷

Evidence in support of the proposed increase of 20 cents per shipment regardless of its size or weight was offered by applicant's regional traffic manager. He testified that the express rates include a fixed amount to cover terminal expenses, which amount does not vary with the weight of the shipment nor the distance involved in the movement. Assertedly, the original interstate express rates were prescribed in this manner by the Interstate Commerce Commission,

⁶ One of the exhibits showed that economics resulting from discontinuance of agencies and discontinuance or curtailment of pickup and delivery service to and including August 16, 1950, amounted to \$78,345. Similar economics amounting to \$12,000 were effected in the succeeding period to and including July 1, 1951. The operating results shown above do not reflect economics made during the period April 30 to July 1, 1951, but the amount involved appears to be small.

⁷ The record shows that applicant's operations over the railroads are generally conducted under a standard agreement which provides for segregation of express revenues and operating expenses according to territories in which they accrue. After deducting applicant's operating expenses, the remainder of the territorial revenue is distributed to the individual railroads in the proportion which express revenue over each line bears to the total territorial revenue. The amounts so paid constitute the compensation of these railroads for handling express traffic.

and the rates for intrastate movements were similarly constructed by applicant. The witness maintained that the proposed flat increase in rates was in conformity with the principle employed in constructing the express rates. He stated that applicant's officials had considered seeking a percentage increase, subject to minimum and maximum advances, but had discarded this plan because of the heavy expense involved in making the necessary traffic studies. Uniform application of the sought advance in rates on both interstate and intrastate traffic, he said, would result in maintaining competitive relationships from a transportation standpoint.

Evidence in opposition to the granting of the proposed increase on certain traffic was introduced by officials of California Grape and Tree Fruit League and Interstate Bakeries Corporation. The manager of traffic and transportation for the League testified that gift package shipments containing fresh fruits and nuts could not bear the sought rate increase and that if it were authorized shippers would be forced to divert the bulk of the traffic to parcel post.⁸ His testimony shows that the weights of the gift packages range from one pound to twenty-nine pounds. About 75 percent of the packages sold weigh ten pounds and under. The individual shipments generally consist of a single package. The selling price includes the transportation charge to the point of destination. Assertedly, the gift packages are prepared for sale at heavy expense. Specially trained and experienced help is employed and costly containers, ribbon, cellophane wrapping and other packing materials are used.

The manager cited a typical example of the effect of the sought rate increase on gift package traffic. According to his

⁸ The record shows that the gift packages in question contain selected quality apples, citrus fruits, dates, grapes, nectarines, nuts, pears and plums. Some of the packages contain a single variety of these products; others contain two or more varieties thereof.

testimony, virtually all of California's crop of winter varieties of fresh pears is produced in Santa Clara County. The bulk of the gift package shipments of these pears moves to Los Angeles in single packages weighing about 10 pounds. The selling price of these packages delivered in Los Angeles is \$3.15 each. The cost to the shipper is \$3.00 each, including packing and the transportation charge but exclusive of overhead charges. The witness stated that any increase in transportation charge must be borne by the shippers. Assertedly, past attempts to advance the selling price had resulted in serious loss of business and higher operating costs. The witness maintained that the foregoing conditions were "relatively true as to all other shipments of gift packages of the indicated commodities and weights." He further maintained that since applicant's rates are related to the weight of the shipment the proposed flat increase, regardless of size or weight, was improper for small gift package shipments and would impose an undue burden on this class of traffic.

The director of traffic for Interstate Bakeries Corporation testified that his company operates ten baking plants in the southern California area and that applicant's service is utilized for the movement of about 50 percent of the intrastate shipments of cake produced at these plants. He asserted that the proposed rate increase, if granted, would result in the shrinking of present market areas and in further diversion of traffic to other forms of transportation. He contended that applicant's proposal was not supported by proper evidence and that it had not been shown that the sought rate adjustment was necessary. On cross-examination, he indicated that his company's shipments of cake contained an average of about 15 packages or pieces per shipment weighing a total of approximately 125 pounds. He agreed that under the proposal herein the sought increase would apply on the entire shipment and not on the individual packages or pieces comprising the shipment.

At the hearings, only the financial results of intrastate operations for the year 1950 were introduced by applicant. The hearing officers pointed out that the increases in express rates authorized effective October 31, 1950, supra, were reflected in the 1950 revenues only for the period October 31 to December 31, 1950, inclusive. Applicant was requested to prepare and submit statements of the operating results under the increased rates for the latest available representative period and it was authorized to file such data within a reasonable period after the conclusion of the hearings. Pursuant to the request, the revenues and expenses for the first four months of 1951 were submitted to the Commission and to the interested parties.

The revenues for the 4-month period include those for January and February, months when the traffic volume is traditionally at relatively low levels. Hence, the revenues for the 4-month period may not be considered as being representative of the annual revenues. On the other hand, the traffic volume for November and December of each year is ordinarily on a comparatively higher level than that for some of the other months of the year. In this instance, applicant at least could have submitted operating results under the increased rates for the 6-month period November 1, 1950 to April 30, 1951, thereby affording the Commission a reasonably representative indication of the current earning position under the circumstances involved.

Nevertheless, the Commission is confronted with the fact that the wages of applicant's employees have been increased by at least \$336,642 per year. It does not appear that applicant can bear the added burden without further rate relief. There is evidence in this record from which it may be judged that the additional revenue derived from the rate increases heretofore authorized effective

October 31, 1950, supra, has been almost fully offset by the recent wage adjustment. Thus, it appears that applicant is again in the position where the revenues fail to cover its own operating expenses and no funds are available for paying the railroads for the transportation services they perform on express traffic. The record is persuasive that the rate increase sought herein would provide but little more revenue than that required to cover the amount of the wage increase and that the additional revenue is necessary to assure maintenance of adequate service.

However, the proposed general increase of 20 cents per shipment is not justified on this record on gift package shipments of fruits and nuts weighing 10 pounds or less. The evidence shows, and it is not disputed, that the proposed rate increase is out of proportion to the weight of and the present transportation charges for such shipments. The record is convincing that authorization of the sought increase on these shipments would result in a material loss of traffic to other means of transportation. The record also shows that there has been a steady decline in the volume of applicant's intrastate traffic. It is clear that applicant cannot afford to lose an appreciable amount of the gift package business. However, the wage increases affect the cost of handling gift packages as well as other express traffic. An increase of five cents per shipment would make some contribution toward the increased costs and should enable applicant to retain the traffic. The 5-cent increase will be authorized.

The cake traffic involves conditions that materially differ from those surrounding the gift package shipments. The evidence shows that the cake shipments average about 15 packages or pieces per shipment weighing a total of approximately 125 pounds. It has not been established on this record that the sought increase is improper for such shipments. It will be authorized.

Applicant is placed on notice that in any proceeding involving increases in its intrastate rates that may arise in the future, it will be expected to make a complete showing in support of its proposals as contemplated by Section 63(a) of the Public Utilities Act, including the financial results of operation for adequately representative past, present and future periods under the then current and proposed rates.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that an interim increase in applicant's intrastate rates and charges to the extent indicated in the foregoing opinion and as provided by the order herein has been justified; and that in all other respects the proposal has not been justified. Publication of the increased rates will be authorized on five days' notice to the Commission and to the public rather than on the sought one day's notice.

O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that, pending further order of the Commission, Railway Express Agency, Incorporated, be and it is hereby authorized to establish, within sixty (60) days after the effective date of this order and on not less than five (5) days' notice to the Commission and to the public, an increase of twenty (20) cents per shipment as proposed in the application filed in this proceeding, except that an increase of five (5) cents per shipment shall be established on gift package shipments weighing ten (10) pounds and under consisting of fresh apples, citrus fruits, grapes, nectarines, pears and plums and also dates and nuts, in lieu of the increase of twenty (20) cents per shipment as proposed in the aforesaid application.

IT IS HEREBY FURTHER ORDERED that to the extent departure from the terms and rules of this Commission's Tariff Circular No. 2 is required to accomplish publication of increases herein authorized, authority for such departure be and it is hereby granted.

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

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicant 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 shall be construed as consent to this condition.

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

Dated at San Francisco, California, this 14th day of August, 1951.

R. J. Dunning
Justus F. Brewer
Harold B. Hill
Herbert C. Potter

Commissioners