A. 33232-AH

Decision No. 47717

ORIGINAL

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 an increase of six cents per shipment in first and second class rail L.C.L. express rates.	Application No. 33232

Appearances

Eugene M. Prince and Noel Dyer, by Noel Dyer, for applicant.
H. F. Wiggins and J. A. McCunniff, for the Commission's staff.

O P I N I O N

Railway Express Agency, Incorporated, is an express corporation operating over the lines of railroads and other common carriers. By this application it seeks authority to increase its first and second class intrastate rates by 6 cents per shipment on less than statutory notice. The sought rate adjustment corresponds with that authorized in applicant's interstate rates by the Interstate Commerce Commission's order of January 24, 1952, in Ex Parte No. 177, Increased Express Rates and Charges, 1951.

Public hearing of the intrastate proposal was held at San Francisco before Commissioner Huls and Examiner Jacopi.

Evidence in support of applicant's proposal was offered by its general manager, by its general auditor and by its regional traffic manager. Counsel for the Commission's staff assisted in the development of the record. The Commission's secretary sent notices of the hearing to a substantial list of chambers of commerce, shipper organizations and persons throughout the state believed to be interested. No one appeared in opposition to the granting of the application.

The last upward adjustment of applicant's intrastate rates was made by Decision No. 46799 of February 26, 1952, in Application No. 32397.[1] This adjustment was made to cover substantial advances that had occurred in wages and in the cost of materials and supplies. Applicant's general auditor testified that the need for the additional increase in rates now sought was occasioned by a further advance in wages. He explained that applicant's wage agreement with its employees dated March 2, 1951, provides for quarterly adjustment of the wages in accordance with a specified cost of living formula.[2] Thereunder, the wages were increased again by 4 cents per hour on January 1, 1952, and were reduced by 1 cent per hour on April 1, 1952.[3] The auditor stated that the annual cost of the net wage increase of 3 cents per hour, including pay roll taxes, amounted to $45,968 for applicant's California intrastate operations. He calculated that the increase in rates now sought would produce additional revenue of $51,014 per year.

Exhibits were submitted and explained by the general auditor dealing with the estimated financial results of operation based upon those for the 12-month period ended March 31, 1952. The exhibits purported to show that the revenue under the present

[1] The authorized increase amounted to 30 cents per shipment for rates stated on a per-shipment basis and to 30 cents per 100 pounds for rates stated on a weight basis. Related upward adjustments also were authorized in second class rates, commodity rates and various other rates and charges. By Decision No. 47353 of June 24, 1952, in Application No. 32830, changes resulting in increased charges also were authorized in a limited number of classification ratings and classification rules.

[2] The formula is based upon the Consumers Price Index For Moderate Income Families issued by the United States Department of Labor.

[3] As shown in Decision No. 46799 of February 26, 1952, supra, the 4-cent per hour wage increase of January 1, 1952, was not included in the operating results on which the rate increases authorized by that decision were based.

rates would have been insufficient by $22,539 to cover the express company's own operating expenses if the 3-cent wage increase had been in effect during the entire period and that no funds would have been available for compensating the railroads for the line-haul services they performed on the intrastate express traffic.[4] However, the rate increases authorized by Decision No. 46799, supra, were in force during the last six days of the 12-month period in question. No adjustment was made of the figures to show the effect of the higher rates for the full period as was done in connection with the wage adjustment. For the purpose of comparison herein, the estimated operating results under the present rates will be adjusted accordingly. The auditor's exhibits showed also what the results of operation would have been if the 6-cent increase in rates now sought had been in effect during the period in question. In these calculations, the auditor gave full effect to the rate increase under Decision No. 46799, supra, to the rate advance now sought and to the wage adjustment. The comparative figures are set forth in the tabulation that follows:

Adjusted Intrastate Express Revenues and Operating Expenses Based on Operations for the 12-month Period Ended March 31, 1952, Under Present and Proposed Rates, Exclusive of Revenues and Expenses for Intrastate Air Express Operations

	Present Rates	Proposed Rates
Express Revenues	$4,017,725	$4,068,740
Express Operating Expenses	3,221,737	3,221,737
Amount Available for Compensating Railroads for their services	$ 795,988	$ 847,003

[4] The auditor explained that applicant's operations over the railroads generally are conducted under a standard agreement which provides for segregation of the express revenues and operating expenses according to the territories in which they accrue. After deducting applicant's own operating expenses, the remainder of the territorial revenue is distributed to the individual railroads in the proportion which the express revenue over each line bears to the total territorial revenue. The amounts so paid constitute the compensation of the railroads for the line-haul and other services performed on the express traffic.

The auditor's exhibits showed that the sum of $847,003 that would be available under the proposed rates for compensating the railroads was equal to 20.82 percent of the intrastate express revenue. He pointed out that the exhibits showed also that 64.48 percent of the express revenue was required by the railroads in the western district to defray the cost of performing the express service, exclusive of income taxes and return on investment. The witness calculated that the aforesaid amount of $847,003 would fall short of covering the rail intrastate costs by $1,215,840. The record shows also that in addition to the revenue hereinabove discussed the express company earned net revenue of $19,794 from its California intrastate express operations over the airlines in the 12-month period in question.[5]

It was developed by counsel for the Commission's staff that the auditor did not provide for pay roll taxes in deducting from the express operating expenses certain joint labor costs recovered from the railroads. This omission requires a downward adjustment of the express company's own expenses amounting to $4,826. In addition, an upward adjustment of $10,575 in the express revenue is necessary. This additional revenue will result from the advances in certain express classification ratings authorized by Decision No. 47353 of June 24, 1952, in Application No. 32830. This revenue was not included in the auditor's exhibits, which were prepared prior to the issuance of the aforesaid decision.

Counsel for the Commission's staff inquired also into the bases employed by the general auditor in calculating the estimated results of the intrastate operations. It should be explained that applicant is engaged in nation-wide express operations, including

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[5] The intrastate air express rates are not involved in the express rate increases sought in this proceeding.

those in California. In this state, the express service is provided over interstate routes as well as over routes wholly within California. Both interstate and intrastate shipments are handled in these operations. These shipments are commingled in handling through the terminals, in the rail express cars and in other facilities. The express company's book records are maintained on a system basis but various operating data dealing with the California operations also are maintained, such as the number of interstate and intrastate shipments handled and the number of hours worked by the employees. The intrastate revenue figures were developed on the basis of the actual number of shipments transported and a special study of the traffic mixture. Applicant's own intrastate operating expenses were calculated by separation of the system expenses in accordance with a formula developed by the express company.

In dealing with the wage costs for express messengers on the trains, the auditor first developed the amount assignable to the total California operations consisting of interstate and intrastate services. These calculations were based upon the number of hours worked by the employees. The auditor then developed the portion assignable to the California intrastate service. In calculating the wage costs for the total California operations, about 70 percent of the amount involved accrued on routes wholly within California. The remainder involved interstate routes on which both interstate and intrastate shipments are handled. The portion of the latter costs assigned to the total California operations was determined in accordance with the proportion which the mileage operated in this state bears to the total mileage for the particular interstate routes. Counsel for the Commission's staff suggested that the latter method might result in the assignment of more than a proper amount to the intrastate operations. A review of the auditor's exhibits discloses that an amount equal to 37.1 percent of the wages in question for the total California operations was assigned to the intrastate service rather than the higher percentage figure suggested by the counsel in connection with a theoretical illustration.

The problems involved in the separation of the wages in question were explained by the auditor. According to his testimony, the proportions of interstate and intrastate shipments in the express cars upon departure of the trains from their terminals changes considerably as additional shipments are received and others are delivered as the trains progress along their routes. Assertedly, the development of a more accurate separation basis for these conditions is extremely difficult. The auditor stated that the company had been confronted with this problem for at least 25 years, that considerable effort and money had been expended during that time to develop an appropriate formula and that the one used herein was the most reasonable basis that applicant thus far had been able to devise. He asserted that this separation formula had been used also in rate proceedings before the Interstate Commerce Commission.

The method employed in developing the number of shipment handlings used in the separation of certain other intrastate expenses was questioned by counsel for the Commission's staff. The auditor agreed that the bases used for these calculations might result in a variation of about one percent from the respective percentages of interstate and intrastate shipment handlings as developed by him. He asserted that it would be necessary to analyze the movement of each shipment from point of origin to point of destination in order to eliminate completely whatever small margin of inaccuracy might be involved in the present formula. Such an undertaking, he said, would be very expensive. The auditor stated that the separation basis in question was the most appropriate one that the express company had been able to develop over a period of many years and that it had been used also in rate proceedings before the Interstate Commerce Commission and before the various state commissions. Assertedly, studies designed to enable the company to achieve further refinement of the formula have been made from time to time and are being continued.

The evidence shows that applicant has made serious efforts over a long period of time to devise bases that would produce separations of interstate and intrastate operating expenses as accurately as possible. It does not appear on this record that the variations in the existing formula are sufficient to produce unreasonable results. The record does not provide any other bases for accomplishing the separations. However, applicant will be expected to continue the studies designed to refine the formula further so as to achieve more precise separations of the California intrastate operating expenses.

Upon adjustment of the general auditor's calculations by increasing the revenues by $10,575 and reducing the operating expenses by $4,826 as hereinabove discussed, the estimated annual results of the intrastate express operations under the present and proposed rates would be as follows:

	Present Rates	Proposed Rates
Express Revenues	$4,028,300	$4,079,315
Express Operating Expenses	3,216,911	3,216,911
Amount Available for Compensating Railroads for their Services	$ 811,389	$ 862,404

As previously stated, the auditor calculated that 64.48 percent of the express revenue was required to cover the costs, exclusive of income tax and return on investment, incurred by the railroads in the western district in transporting the express traffic. This calculation was based upon the costs submitted by the western railroads in connection with the increases in express rates authorized by the Interstate Commerce Commission in Ex Parte No. 177, supra. The costs were predicated upon the anticipated movement of 80 million shipments per year for applicant's nationwide operations. The record shows, however, that the national traffic volume has increased as a result of restrictions placed recently on the size and weight of packages accepted by parcel post and that the express movement would approximate 89 million shipments. The auditor agreed that to reflect the present conditions a downward adjustment was necessary in the aforesaid percentage of the express revenue needed to cover the rail costs in the western district but he was unable to indicate the amount of the adjustment. According to the record, however, the amount of express traffic handled in California has not increased despite the improvement in the over-all traffic volume. This condition was attributed to the effect of keen competition of other modes of transportation. The auditor's calculations as adjusted hereinabove show that after meeting applicant's own intrastate operating expenses the remainder of the revenue anticipated from the increased rates sought herein would fail to cover the California railroads' costs of transporting the intrastate express traffic by $1,200,439, exclusive of income taxes and return on investment. On the whole, it appears from the record that the improved national traffic level would not result in a substantial downward effect on the aforesaid intrastate deficit in the express company's payments.

Applicant's general manager in charge of western operations testified that the express company has continued its activities in connection with the program undertaken in the year 1951 designed to improve operating efficiency and to reduce operating expenses where possible.[6] In that year, the gross reduction made in the operating expenses amounted to $204,336.[7] Further gross reductions in expenses were made in the period January 1 to May 31, 1952, amounting to $1,884 through consolidation of offices at San Diego, $5,425 by revision of express messenger runs and $38,412 by reason of more efficient methods of handling shipments at the Los Angeles and San Francisco terminals which increased the employee production per man-hour by 2.4 percent. The engineering firm employed by applicant to survey its terminals recently has recommended that structural changes be made in the facilities at Los Angeles, Oakland and San Francisco and that power-operated conveyor belts and gravity roller conveyors be installed for the handling of express shipments. The changes recommended are designed to develop greater efficiency in the flow of traffic through the terminals.

Applicant maintains both class rates and commodity rates for intrastate express shipments. As previously stated, it proposes to increase the class rates by 6 cents per shipment. The

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6 Applicant has retained an engineering concern to survey the operations at terminals and depots for the purpose of establishing efficient handling methods. Selected operating employees are being given a course of instruction in such methods by the engineering concern. Another group of operating employees reporting directly to applicant's president is charged with the responsibility of determining and correcting deficiencies in express service. An accounting research bureau has been established for the purpose of simplifying accounting methods and procedures. The duty of ascertaining whether the various classes of traffic are bearing a proper proportion of the cost of the service has been assigned to a traffic research group.

7 The operating economies in question are more particularly discussed in Decision No. 46799 of February 26, 1952, in Application No. 32397, which authorized the last adjustment made in applicant's intrastate rates.

regional traffic manager outlined the reasons why no change was being proposed in the existing commodity rates. His testimony shows that the latter rates cover mainly articles of food, including beverages, moving between some of the larger points in California and that they were established on levels lower than the class rates for the purpose of meeting the keen competition of highway carriers. The traffic manager stated that as a result of recent increases the commodity rates now are materially higher than the rates charged by the competing highway carriers and that a substantial loss of traffic would result if the existing rate differential were increased. It was pointed out in addition that on shipments weighing 100 pounds or less, which comprise the bulk of the traffic, the average revenue per shipment under the present 1st and 2nd class rates amounted to $1.86 and $1.66, respectively, as compared with $1.97 per shipment on the commodity rate movements. It was pointed out further that with the addition of the increase of 6 cents per shipment proposed in the class rates the average revenue still would be lower than that under the commodity rates.

The record made in this proceeding shows that the rate increase sought by applicant would provide additional revenue amounting to but little more than necessary to offset the cost of living wage increase granted under the existing labor agreements with the employees. The wage increase amounted to $45,968 per year. The additional annual revenue expected to be derived from the rate increase amounts to $51,014. The intrastate revenue under the rate structure as proposed by applicant would be sufficient to cover applicant's own increased annual operating expenses and to enable it to pay $862,404 toward the annual amount due the California railroads for transporting the intrastate express traffic. The record indicates, however, that this payment would be $1,200,439 less than the costs, exclusive of income tax and return on investment, incurred by the railroads in providing the line-haul service. On this record, it is clear that applicant needs the additional revenue sought herein.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that the increase in intrastate express rates and charges as proposed in the application filed in this proceeding is justified. The application will be granted.

In this proceeding, consideration has been given to applicant's over-all revenue requirements and no study has been made of each or any of the rates or charges. In authorizing the increase herein involved the Commission does not make a finding of fact of the reasonableness of any particular rate or charge as so increased.

ORDER

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

IT IS HEREBY ORDERED that Railway Express Agency, Incorporated, be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, an increase in its first and second class rates and charges and multiples thereof amounting to six cents per shipment, as proposed in the application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that to the extent departure from the terms and rules of Tariff Circular No. 2 of this Commission is required to accomplish publication of the increases herein authorized in the same form as authorized by the Interstate Commerce

Commission on interstate traffic, 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 734 of the Public Utilities Code, 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.

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

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

Dated at San Francisco, California, this 16th day of September, 1952.

R. J. [illegible]
President

Justus F. Craemer

Harold P. Hulls

Peter E. Mitchell

Commissioners