

**ORIGINAL**

Decision No. 48339

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Railway Express Agency, Incorporated, a corporation, for authority to increase certain intrastate rates and charges for air express service fur- nished within the State of California.	) ) ) ) ) ) )	Application No. 33596
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Appearances

Eugene M. Prince and Dudley A. Zinke,  
by Dudley A. Zinke, for applicant.  
Michael Sandler, for Triangle  
Publications, Inc., protestant.  
McEnerney & Jacobs, by Garret McEnerney  
and Reginald L. Vaughan, for  
San Francisco Newspaper Publishers  
Association, Los Angeles Newspaper  
Association, and California Newspaper  
Publishers Association and John C.  
Barulich, for California State  
Florists Association and Consolidated  
Flower Shipments, Inc., interested  
parties.  
H. F. Wiggins, R. O. Biedenbach and  
T. A. Hopkins, 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 common carriers. In addition to its express operations over other carriers, it conducts a nation-wide air express service over the airlines for the transportation of property, including service between points in California. By this application, as amended, the express company seeks authority to increase its California intrastate air express rates by varying amounts.<sup>1</sup>

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The application was filed with the Commission on July 23, 1952. An amendment to the application was filed on January 3, 1953.

A public hearing of the application was held at San Francisco on January 7 and 8, 1953, before Commissioner Potter and Examiner Jacopi. The granting of the application was opposed by a publisher of periodicals. Counsel for the Commission's staff participated in the development of the record through the examination of witnesses.

Applicant maintains different scales of air express rates applicable to (1) merchandise, not otherwise specified, (2) gold coin and bullion, currency, platinum and other precious metals, and (3) newspapers, magazines and other periodicals. Under applicant's proposal, the shorter hauls would bear the greatest increases in rates. For the other hauls, the amounts of the sought advances gradually taper downward as the distance becomes greater. The record shows that the proposed upward adjustments range from 192.2 percent to 6.68 percent on merchandise, from 85.19 percent to 51.85 percent on gold coin and related articles and from 100 percent to 12.08 percent on newspapers and periodicals. The over-all average increase is estimated to be 52.1 percent. The substantial rate increases sought in the shorter hauls are attributable mainly to applicant's proposal to consolidate its existing rate scales 1 and 2 into a single scale and to maintain therefor the higher scale 2 basis of rates.

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<sup>2</sup> For the merchandise traffic, charges per shipment are provided which vary with the weight of the shipment and the distance it is transported. The rates for gold coin and articles grouped therewith are named in dollars per \$1,000 of declared value. The rates vary with the distance involved. On newspapers and periodicals, the rates are named in cents per pound and they also vary with distance.

<sup>3</sup> Applicant's rates are determined in accordance with scales 1 to 8, inclusive, which reflect the varying distances between the points served. The scale 1 rates apply for distances of 149 miles or less and scale 2 rates for distances over 149 miles but not over 249 miles. The consolidated scale proposed would apply for distances of 249 miles or less.

It is proposed also to raise the existing minimum charges per shipment of \$1.35 and \$1.50 on gold coin and precious articles and on all other traffic, respectively, to \$2.50. The sought rate adjustments are expected to produce additional revenue amounting to \$118,127 per year.

It is alleged that the present intrastate air express rates are insufficient to cover the costs incurred in performing the air express service. The record shows that the present rates have been in effect without change since August 1948. Assertedly, since that time substantial increases in wages and in other items of operating expense have been experienced. Applicant's nationwide interstate air express rates, according to the record, have been increased under authority issued by the Civil Aeronautics Board on three occasions since 1948 to offset the higher costs of operation. The evidence shows that the proposal herein is designed to place the intrastate rates on a more nearly compensatory basis and to bring such rates to the level of the present interstate rates and the intrastate rates in other states so as to provide a more equitable distribution of the higher costs of operation.

The vice-president in charge of applicant's air express operations testified that the service is conducted under a uniform agreement with each airline whose facilities are used by applicant.<sup>4</sup> Settlement between applicant and the airlines for the services performed is made in accordance with a formula provided in the agreement. In general, applicant recovers from the gross revenue its own expenses incurred in connection with the air express service plus 10 percent thereof with certain exceptions. Applicant also receives 20

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<sup>4</sup> A copy of the agreement was introduced in evidence. Briefly stated, the agreement provides that applicant shall perform the pickup and delivery services with its own equipment and personnel, including the movement of the shipments from and to the airport terminals. The airlines transport the shipments from the origin to the destination airports and also load and unload the planes.

percent of the remainder of the revenue to compensate it for promotion and development of the service and for contingencies not covered by the formula. The remaining revenue is paid to the airlines as the compensation for their line-haul services on the express traffic. According to the vice-president, any deficiencies between applicant's payments and the airlines' costs of the transportation services performed by them are absorbed by the airlines.

The vice-president testified that applicant's book records were maintained on a system basis and "for the purposes of computing the settlement between Railway Express Agency and the airlines, we make only one computation based upon total air express operations, both interstate and intrastate throughout the United States, since the agreement recognizes only system costs and not intrastate costs for each state." He submitted a series of exhibits, however, showing the estimated financial results of the California intrastate operations for the 12-month period ended June 30, 1952, under the present rates and what the results would have been had the proposed rates been in effect. The exhibits contained two estimates of operating results calculated on different bases. According to the vice-president, one of the estimates was based upon the expenses incurred by applicant on the intrastate operations as developed from its book records and upon the airlines' costs of providing the line-haul services. <sup>4</sup> The witness asserted that applicant was relying upon

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<sup>4</sup> Direct assignment was made of applicant's own intrastate expenses that were readily identified in the books. The other expenses were developed through apportionment of costs incurred in California for all classes of express services and through apportionment of the system expenses. The apportionments were made either from operating data for California operations or under other bases developed for the purpose.

this estimate to establish the inadequacy of the present rates and the need for the sought rate increases. The estimate in question is summarized in Table No. 1 below.

Table No. 1

Estimated Results of Intrastate Air Express Operations For the 12 Months Ended June 30, 1952, Under The Present and Proposed Rates

	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenue	\$226,733	\$344,861
Expenses:		
Applicant's Expenses	*228,377	228,377
Airlines' Transportation Costs	<u>128,819</u>	<u>128,819</u>
Total Expenses	\$357,196	\$557,196
Net Operating Revenue	<u>(\$130,463)</u>	<u>(\$ 12,335)</u>
Operating Ratio	157.5%	103.6%
Total Intrastate Shipments	86,748	86,748

\* Does not include provision for costs of development or promotion of the air express service nor for contingencies or profit.

(      ) - Indicates deficit.

In the other estimate of the operating results submitted, the average system costs and a number of other bases were employed to develop the estimate of applicant's own California intrastate operating expenses. The methods used are those provided for in the aforesaid agreement between applicant and the airlines for calculating the settlement on the system operations. Assertedly, this estimate was introduced for comparative purposes. It is set forth in Table No. 2 below.

Table No. 2

Estimated Results Of Intrastate Air Express Operations For the 12-Month Period Ended June 30, 1952; Under the Present And Proposed Rates, With Applicant's Own Intrastate Expenses Calculated Under The Formula Provided In Its Agreement With The Airlines

	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenue	\$226,733	\$344,861
Applicant's Expenses	215,987	215,987
Profit for Applicant (1)	20,191	20,191
Total Expenses and Profit	\$236,178	\$236,178
Remainder of Revenue (2)	( <u>\$ 9,445</u> )	\$108,683
Apportionment of Remainder:		
20% to Applicant (3)	( <u>\$ 1,889</u> )	\$ 21,737
80% to Airlines (4)	( <u>\$ 7,556</u> )	\$ 86,946
Airlines' Line-Haul Costs	\$128,819	\$128,819
Total Intrastate Shipments	86,748	86,748

(        ) - Indicates deficit.

- (1) The formula in question provides for a profit for applicant based upon 10% of its own expenses with certain exceptions.
- (2) Shows the amount of revenue remaining after deduction of applicant's own expenses and the agreed profit.
- (3) Represents the portion of the remainder of the revenue accruing to applicant as compensation for the cost of promotion and development of the air express service and to cover contingencies not provided for in the formula used for the calculations.
- (4) Shows the amount available for compensating the airlines for the cost of the line-haul services as shown in the next entry in the table.

The airlines' transportation costs shown in Tables Nos. 1 and 2 were based upon cost figures in exhibits presented by witnesses for United Air Lines and Western Air Lines, two of the five airlines used by applicant for the line-haul services on the intrastate traffic.<sup>5</sup> The record shows that about 85 percent of this traffic is handled by the two airlines in question. The costs submitted by the witnesses were the average costs per ton-mile<sup>6</sup> for the system operations of the airlines in question. It was explained that the airlines' book records were maintained on a system basis without segregation of revenues or expenses for the various intrastate operations. The witnesses stated that separation of the expenses assignable to the various classes of traffic was extremely difficult because passengers, baggage, mail, air cargo and air express generally were handled on the same planes. They asserted, however, that the California intrastate air express service was more expensive to perform than the interstate operations

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No costs were submitted for the other three airlines, i.e., Trans World Airlines, Southwest Airlines and American Airlines.

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In the calculations, certain "extraordinary" expenses incurred on the passenger service first were deducted from the system expenses. The remainder was used in connection with the number of ton-miles of all traffic handled, including passengers, to develop the average ton-mile cost of transportation for the system operations. Assertedly, the method used was similar to that employed by the Civil Aeronautics Board in the separation of subsidy payments from service mail payments to domestic air carriers. Application of a weighted average of the ton-mile costs developed by the airlines' witnesses to the total number of ton-miles of intrastate air express traffic handled by the five carriers used by applicant produced the airlines' costs as set forth in Tables Nos. 1 and 2.

because of the relatively shorter hauls involved. The witnesses asserted also that under these conditions the average system costs submitted were reasonably representative of those for the transportation of the intrastate air express traffic. No evidence of probative value was submitted, however, in support of these assertions.

The granting of the proposed rate increases on newspapers and periodicals was opposed by a Los Angeles publisher of racing news. According to the circulation manager, his company is the largest single user of California intrastate air express service. His testimony shows that the bulk of the shipments move from Los Angeles to San Diego and San Francisco, and that they consist of substantial quantities. The sought rate increase on the large shipments, the witness said, was equal to one-half cent per copy.<sup>7</sup> To show the effect of applicant's proposal on single-copy shipments, he compared the sought minimum charge of \$2.50 per shipment with air mail charges ranging from 42 cents to 48 cents for interstate movements. The witness stated that the establishment of rate increases on interstate movements in the amounts sought herein had caused his company to divert virtually all of its interstate shipments to bus and rail express services. He asserted that applicant would experience a similar loss of intrastate traffic if the proposed rates were authorized. The witness conceded that applicant provided special service by maintaining a motor truck

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According to the record, three copies of the publication in question have an average weight of one pound. The retail price is 35 cents per copy, of which the publisher receives 29 cents.



at his company's plant to assure that the final issue for each day would make connections with plane schedules. He maintained, however, that applicant also benefited from this method of handling by reason of direct movement from the plant to the airport in full truckloads.

No one else specifically opposed the granting of the application.

### Conclusions

The operating results in Table No. 1 upon which applicant relies to justify its proposals, show that the revenues under the present rates fail to cover applicant's own operating expenses by \$1,644 per year and that no funds are available to pay the airlines for the services they perform on the express traffic. On the other hand, the table indicates that the revenue anticipated from the proposed rates would cover applicant's own expenses and also \$116,484 of the estimated airlines' total cost of \$128,319.

However, the estimated airlines' cost of performing the line-haul service on the California intrastate air express traffic may not be used for the purpose of this proceeding. As previously stated, the cost figure for the total intrastate traffic was based upon the average over-all cost per ton-mile experienced for the system operations of two of the five airlines involved. One of the two lines operates a transcontinental service. The other one provides less extensive service to eastern points but its operations include a route extending into Canada. The system expenses of these lines upon which the average over-all ton-mile cost was developed generally reflected the cost of handling

interstate movements and also intrastate movements within various states of passengers and their baggage, mail, air cargo and air express. The record shows that about 85 percent of the total annual system revenue of each of the two airlines was derived from the transportation of passengers, exclusive of charter service. The system air express revenues amounted to only 1.27 percent and 2.62 percent of the respective total system revenues of the two airlines.

Under these circumstances, it was not demonstrated by evidence of probative value that the ratio of expenses to revenues in the air express service was the same as the corresponding ratio for the over-all system operations nor was it shown that the service rendered on air express incurred like expenses as those for the other transportation services performed. Additionally, it was not established that the average costs of the two airlines used in the calculations were representative of those of the other three airlines whose costs were not submitted but who are involved in applicant's intrastate operations. It is clear that applicant has not sustained the burden of proof necessary to justify the proposed rate increases. The Commission's conclusion is not that no upward adjustment of the present rates is necessary but rather that the present record affords no sound basis for authorizing the rate increases sought by applicant.

Upon consideration of all of the facts and circumstances of record, the Commission is of the opinion and hereby finds that the increases in air express rates sought by applicant have not been justified. The application, as amended, will be denied.

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 the above-entitled application, as amended, be and it is hereby denied.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 2<sup>nd</sup> day of March, 1953.

*J. T. [Signature]*  
 President

*Justus J. Calver*  
*Harold A. Kula*

*[Signature]*  
*[Signature]*  
 Commissioners