

ORIGINAL

Decision No. 50769

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 Railway Express Agency, Incorporated,  
 a corporation, to increase certain  
 intrastate rates, charges and  
 classification provisions for  
 rail express service within the  
 State of California.

Application No. 35267

Pillsbury, Madison & Sutro and Eugene M.  
 Prince, Noel Dyer and Dudley A. Zinke, for  
 applicant.

John C. Barulich, for Consolidated Flower  
 Shipments, Inc., and California State  
 Florists Association, interested parties.

W. F. McCann, for Johnson & Johnson, interested party.

H. F. Wiggins, T. J. Canty, A. C. Porter and  
 C. E. Peterson, Jr., 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 Decision No. 47717 of September 16, 1952 (52 Cal. P.U.C. 47), it was authorized to establish an increase of six cents per shipment applied in the form of a surcharge. By this application, the company seeks authority to advance its rates and charges generally by 20 per cent, with certain exceptions.<sup>1</sup> This adjustment would not be in addition to but would supersede the aforesaid surcharge. The sought advances correspond with those authorized in applicant's interstate express rates and charges by the Interstate Commerce Commission's order of July 20, 1953, in Ex Parte No. 185, Increased Express Rates and Charges, 1953.

<sup>1</sup> The proposed adjustments are fully set forth in the application. Increases are proposed in all of applicant's intrastate rate structure except rates on milk and cream and other articles grouped therewith in the company's tariffs, newspapers, corpses, icing of less-carload perishable traffic, carload refrigeration service and movements of race horses and other livestock, magazines and other periodicals.

A public hearing of the intrastate proposal was held at San Francisco on May 26 and June 22 and 23, 1954, before Examiner Henry Jacopi. The matter was submitted upon receipt of late-filed exhibits on July 3, 1954.

Evidence in support of the rate proposal was offered by a number of applicant's officials and by witnesses for California railroads over which applicant operates. Counsel for the Commission's staff participated in the development of the record through examination of the witnesses. The Commission's secretary sent notices of the hearing to a substantial list comprised of chambers of commerce, shipper organizations and other persons believed to be interested. No one appeared in opposition to the granting of the application.

The vice-president in charge of applicant's western operations testified that the revenues derived from the present express rates and charges were insufficient for the express company to compensate the California railroads in full for the hauling and other services they performed on intrastate express traffic.<sup>2</sup> The witness asserted that the express company has continued its activities commenced in 1951 to improve operating efficiency and reduce expenses.<sup>3</sup>

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2 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 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 territorial revenue. The amounts so paid constitute the compensation of the railroads, including the California railroads, for handling the express traffic.

3 Applicant retained an engineering concern to survey the operations at terminals and depots for the purpose of establishing efficient handling methods. Selected operating employees have been trained in such methods. 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.

He explained the efficiencies achieved through recent installation at various terminals of power-operated conveyor belts and gravity roller conveyors and the use of fork-lift trucks, two-way radio equipped vehicles and other operating improvements. In addition, he said, the company intensified its sales activities and is conducting a nation-wide advertising campaign in connection therewith. According to the witness, although there has been some improvement in its position as a result of these activities the revenues under the present rates still are insufficient to cover all of the expenses involved in the California intrastate express operations.

Exhibits were submitted and explained by applicant's general auditor showing the results of the California intrastate express operations in the 12-month period ended February 28, 1954, under the present rates and what the results would have been had the increased rates sought in this proceeding been in effect during the period in question. He calculated that the proposed rates would produce additional revenue amounting to \$490,099 per year. The results of operation of the express service over the rail lines as shown below were summarized from the auditor's exhibit.

Estimated California Intrastate Express Revenues  
And Operating Expenses For The 12-Month Period  
Ended February 28, 1954, Under The Present  
And Proposed Rates.

	Present Rates	Proposed Rates
Express Revenues	\$2,992,822	\$3,482,921
Express Company's Own Operating Expenses	<u>2,473,047</u>	<u>2,473,047</u>
Amount available for compensating railroads for their services	\$ 519,775	\$1,009,874

The auditor pointed out that the sum expected to be available under the proposed rates for compensating the California railroads was equal to 29 per cent of the intrastate express revenue. He pointed out also that his exhibits showed that 56.48 per cent of the intrastate express revenue was needed to defray the costs

(exclusive of income taxes and before provision for return of investment) of performing the express services by railroads in the western district. The auditor calculated that the aforesaid amount for compensating the railroads would fall short by \$680,472 of covering their expenses on California intrastate express traffic.

Studies of the revenues and of the out-of-pocket expenses for the passenger trains handling express traffic between points in California were presented by witnesses for certain of the railroads. The studies introduced by the manager of the bureau of transportation research of Southern Pacific covered 29 passenger trains operated in California by his company and two trains of the Northwestern Pacific Railroad, an affiliate. According to his calculations, the express company's payments in the 12-month period ended September 30, 1953, failed to cover Southern Pacific's total out-of-pocket cost of the California intrastate express service by \$508,080 and by \$2,555 for the Northwestern Pacific. Similar studies offered by a witness for Santa Fe Railroad showed that the out-of-pocket costs of the express service exceeded the express payments by \$81,713 in the 6-month period ended October 31, 1953. The studies submitted by the foregoing witnesses also showed that the earnings of the aforesaid passenger trains from all services fell considerably short of the out-of-pocket costs for the trains as a whole.

Applicant's regional traffic manager explained the reasons why no increase was being sought in certain traffic as hereinbefore indicated. Assertedly, express shipments of milk, cream and related articles usually move in the same cars with like shipments in rail baggage service and it has long been the practice to make increases in the express rates only to the extent that the rail rates are adjusted. Likewise, no advance is proposed in the express rates on corpses so as to maintain them on the level of the rail charges for movements in baggage service. According to the witness, the present

rates on newspapers, magazines and periodicals, carload shipments of race horses and other livestock and refrigeration service on carload movements are adequate and no increase therein is necessary under present conditions.

The record made in this proceeding shows that the increased rate structure proposed by applicant would produce annual revenue sufficient to cover its own operating expenses for the California intrastate service and to enable it to pay \$1,009,874 toward the estimated annual amount that would be due the California railroads for transporting the intrastate express traffic. The record indicates, however, that this payment would be \$680,472 less than the rail costs exclusive of income taxes and before provision for return on investment. On this record, applicant has established that it 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 increases in intrastate express rates and charges as proposed in the application filed in this proceeding are justified. The application will be granted. Applicant seeks relief from the long and short haul provisions of Section 460 of the Public Utilities Code in order to establish the authorized adjustment in certain rates which are non-intermediate in application. Like authority is justified for the rate adjustments being authorized herein and will be granted.

In this proceeding, consideration has been given to applicant's over-all revenue requirements and no study has been made of any of the rates or charges. In authorizing the increase involved

herein, the Commission does not make a finding of fact of the reasonableness of any particular rate or charge as so increased.

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 Railway Express Agency, Incorporated, be and it is hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the increases in express rates and charges as proposed in the application filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby authorized to depart from the long and short haul provisions of Section 460 of the Public Utilities Code to the extent necessary to adjust long and short haul departures now maintained in Local Competitive Tariff No. 6, Cal. P.U.C. No. 225 under outstanding authorizations, and to depart from the terms and rules of Tariff Circular No. 2 of this Commission to the extent necessary to accomplish publication of the rate increases herein authorized in the same form as authorized by the Interstate Commerce Commission on interstate traffic.

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 the 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 days after the effective date hereof.

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

Dated at San Francisco, California, this 16<sup>th</sup> day of November, 1954.

*John E. Mitchell*  
 President

*Justus F. Cassel*

*Gene Higgins*

*Raylo Lutterer*

Commissioners

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.