

Decision No. 53783**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of RAILWAY EXPRESS AGENCY,)
 INCORPORATED, a corporation, to increase)
 certain intrastate rates and charges for) Application No. 38038
 rail express service within the State of)
 California.)

Eugene M. Prince and Dudley A. Zinke, for applicant.
 J. J. Deuel and Joseph Q. Joynt, for California Farm Bureau, interested party.
Walter H. Moryman, for California State Florist Association, interested party.
J. C. Kaspar and Arlo D. Poe, for California Trucking Associations, Inc., interested party.
A. C. Porter and B. A. Peeters, for the staff of the Public Utilities Commission of the State of California.

O P I N I O N

By this application filed May 17, 1956, Railway Express Agency, Incorporated, seeks authority to effect a 7 percent increase in its first and second class rates and charges and in various of its classification rates and charges applicable to its California intrastate traffic. It also seeks to increase by 6 percent its rates and charges for the transportation of milk, cream and related products, and its terminal and switching charges on carload traffic. Applicant states that its present rates were established in 1954; that since that time it has experienced substantial increases in its costs of operations; that its investment in operating properties has also been increased materially; and that as a consequence of these circumstances increases in its rates and charges are necessary to maintain an adequate and efficient express service for the public.

On July 11 and 12, 1956, subsequent to notice to persons and organizations believed to be interested, public hearings on the application were held before Commissioner R. E. Untereiner and Examiner C. S. Abernathy at San Francisco. Evidence was submitted in applicant's behalf by its western traffic manager, by its general auditor, and by representatives of The Atchison, Topeka and Santa Fe Railway Company and of the Southern Pacific Company, underlying carriers for applicant. Members of the Commission's staff participated in the development of the record.

Applicant's western traffic manager testified that the proposed rate increases are the same as those which applicant established earlier this year for its interstate services, and also for its intrastate services in other of the Mountain-Pacific states except Montana. These higher rates, he said, were established to offset increases in operating costs. He asserted that the same circumstances which justified the rate increases for interstate traffic, and for intrastate traffic elsewhere, apply with equal force to California intrastate traffic, and that the California intrastate rates should be increased by corresponding amounts in order that there may be a fair distribution of the increased costs of the services performed. The proposed rates, he said, are designed to produce revenues to meet the additional costs with a minimum adverse effect upon the volume of applicant's traffic. He indicated that for the latter reason no increases are being proposed at present in certain commodity rates which applicant maintains to meet competitive conditions or to develop new traffic.¹

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It appears that about 80 percent of applicant's revenues are earned under the rates involved herein and that the balance is earned under the commodity rates.

The general auditor testified that applicant's rate increase proposals herein have been prompted primarily by increases in wage rates and payroll taxes which became effective on December 1, 1955, and on January 1, 1956, respectively. According to an exhibit which he presented, these wage and tax increases, and related increases which have been granted to employees in clerical and administrative classifications, will add approximately \$135,000 to applicant's intrastate operating cost annually. The exhibit also shows that, with provision for miscellaneous expense increases included, the additional intrastate operating costs total approximately \$161,000 per year. The witness estimated that the sought rates, if established, would return additional revenues of virtually the same amount.

The auditor witness also presented data to show that under present rates applicant's revenues fall substantially short of returning the costs of its services. He said that under governing arrangements between applicant and its underlying railway carriers the balance of the revenues remaining after payment of applicant's operating expenses is remitted to the railroad companies for the services which they perform in the transportation of express shipments. He testified that under present revenues and expense levels 26.97 percent of applicant's revenues are available to the rail carriers to meet the rail costs of the services involved. He asserted, however, that studies have developed that 56.48 percent of the revenues would be required to reimburse the rail carriers for their costs only and that this figure would be 71.8 percent were provision to be made also for a reasonable return on the facilities of the rail carriers which are used in the transportation of express. The auditor calculated that under present rates applicant's California intrastate revenues, which amounted to \$2,868,000 for

the year 1955, were deficient by more than a million dollars in meeting the applicable costs and providing a reasonable profit.

Evidence similar in purport to that of applicant's auditor was also presented by the representatives of the rail carriers who appeared in applicant's behalf. These witnesses submitted data to show that under present rates applicant's payments to the rail carriers for express privileges are not sufficient to return even the out-of-pocket costs which the carriers incur in transportation of express shipments. A witness for The Atchison, Topeka and Santa Fe Railway Company presented the results of a study of revenues and out-of-pocket expenses applicable to six months' operations of 11 passenger trains which assertedly transport the bulk of the California intrastate express shipments moving over the lines of that carrier.² The results of a similar study covering a year's operations of 30 passenger trains within California was presented by an engineer for the Southern Pacific Company. According to the figures of these witnesses, the out-of-pocket costs incurred at present expense levels for transporting express exceed the revenues which The Atchison, Topeka and Santa Fe Railway Company and the Southern Pacific Company receive from the transportation by approximately 25 percent and 50 percent, respectively. Their figures indicate, furthermore, that the passenger train operations as a whole are resulting in out-of-pocket losses and that approximately 8 percent of the losses are from the transportation

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It appears that practically all express shipments which are handled by applicant move in passenger train service.

of express. Summaries of the revenue and expense showings of these two witnesses are set forth in Tables 1 and 2 below:

Table 1

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

Estimated Revenues and Out-of-Pocket Expenses for Intrastate
Passenger Trains Handling Express Traffic
Six Months through February, 1956

	<u>Express Only</u>	<u>Total (Passenger, mail, express, miscellaneous)</u>
Revenues	\$122,394	\$1,073,159
Expenses, out-of-pocket*	<u>152,618</u>	<u>1,367,312</u>
Deficit, out-of-pocket	\$ 30,224	\$ 294,153

*Expenses adjusted to present cost levels.

Table 2

SOUTHERN PACIFIC COMPANY

Estimated Revenues and Out-of-Pocket Expenses for California
Intrastate Passenger Trains Handling Express Traffic
Twelve Months through May, 1956

	<u>Express Only</u>	<u>Total (Passenger, mail, express, miscellaneous)</u>
Revenues	\$ 962,870	\$13,593,330
Expenses, out-of-pocket*	<u>1,447,590</u>	<u>19,501,220</u>
Deficit, out-of-pocket	\$ 484,720	\$ 5,907,890

*Expenses adjusted to present cost levels.

At the close of applicant's presentation herein a traffic consultant for the California State Florist Association requested that cut flowers be exempted from any rate increase that might be authorized in this proceeding. No evidence, however, was presented in support of this request. In other respects interested shippers did not oppose granting of the application.³

The record in this proceeding is clear that during the past year applicant has experienced substantial increases in its costs of labor and in other costs and that by the higher rates which it would establish it is seeking revenue increases of only amounts approximating the advances in its operating costs. The record is also clear that applicant's present rates do not return the costs of the services and that the sought rates also will not return all of the costs. These conclusions do not necessarily imply full acceptance of applicant's showing that the revenue deficiencies from the operations involved herein are as great as indicated. The showing was developed in part upon averages of applicant's system-wide operations and to that extent is based on assumptions that the underlying relationships which were developed for the system apply also to the intrastate operations to the same degree. Nevertheless, an exact determination of operating results of the intrastate services only does not appear necessary in the present instance. Even on a modified basis, it appears that applicant has established need of its intrastate operations for the additional revenues which the sought rates would return. On this basis the proposed increases are

³ As an alternative to the sought exemption for cut flowers the consultant for the florist association requested a continuance of the hearings in this matter for approximately 30 days in order that he might have opportunity to review the applicable circumstances as they pertain to cut flowers. This request was denied. There was no indication of insufficiency of notice of the hearings to the florist association or to any other interested party.

found justified. No finding, however, is made concerning the reasonableness of any particular rate or charge which may be established as a result of this proceeding.

Notwithstanding the fact that all of the proposed increases are herein found justified, no order will be issued at this time authorizing increases in applicant's rates for milk, cream and related products and in its terminal and switching charges for carload traffic. Although applicant seeks an increase of 6 percent in these rates, its intent is to establish increases corresponding to those which may be authorized in connection with similar rates maintained by the railroad companies in California and which are the subject of a separate proceeding (Application No. 37697). When decision therein is issued, a further order in the present matter may be made applying to the rates specified.

In connection with establishment of the increased rates and charges, applicant asks that it be permitted to make them effective on less than statutory notice. In view of its demonstrated need for additional revenues to offset present losses, the authority in this respect will be granted.

O R D E R

Based on the evidence of record and on 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:

- (a) To increase by 7 percent its first and second class rates and charges and various of its classification rates and charges applicable to California intrastate rail express traffic to the extent that said increase is represented in the proposed rates and charges set forth in Exhibits A and B attached to the above-numbered application in this proceeding, and

(b) To establish and make effective rates and charges increased as herein authorized on not less than five days' notice to the Commission and to the public.

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 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitutes 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 days after the effective date hereof.

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

Dated at San Francisco, California, this 18th day of SEPTEMBER, 1956.

John E. Mitchell President
Justus J. Crane
Raulo Antero
Walter J. ...
R. Hardy Commissioners