

ORIGINALDecision No. 55941

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 intrastate) Application No. 38950
 rates and charges for air express)
 service within the State of California.)

Pillsbury, Madison & Sutro, Eugene M. Prince
 and Dudley A. Zinke and Emil Seerup, by
Dudley A. Zinke, for applicant.
A. C. Porter and W. P. Campana, 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. Part of its operations is a nation-wide air express service over the air lines. By this application, filed March 29, 1957, and amended July 15, 1957, it seeks authority to increase its California intrastate air express rates by varying amounts.

Public hearing was held at San Francisco on July 17 and 18, 1957, before Examiner Carter R. Bishop. Members of the Commission's staff assisted in developing the record.

In brief, applicant seeks authority to increase its intrastate rates and charges and to amend certain tariff rules so as to make them the same as the interstate rates and rules. Except for a change in the minimum charge from \$1.00 to \$1.50 in 1948, the California intrastate rates and charges have not been changed since 1946. During this period the rates applicable to interstate and intrastate traffic in other states have been increased several times. In 1953, applicant sought authority from this Commission to increase its intrastate rates to the level of the then effective

interstate rates. That application was denied,¹ as the record in that proceeding did not contain sufficient evidence of probative value to afford a sound basis for authorizing the sought rate increase. Decision No. 48330, supra, contains detailed explanations of applicant's rate structure and method of operation with the various air lines. It is not necessary to repeat that information in this opinion.

The sought rate adjustments would result in approximately a 60 per cent over-all increase in revenues with individual rate changes ranging from decreases in some instances to percentage increases as high as 396 per cent, in one instance, for the transportation of live birds and animals. The largest increase on general merchandise amounts to 196.7 per cent. The greatest increases occur in the shorter hauls and are mainly due to the proposal to eliminate Rate Scale 1, and apply Rate Scale 2 rates to such shipments.² Another factor causing the large percentage increases is the desire to make the total increases on intrastate traffic in one jump that have been made in a series of smaller increases on interstate traffic over the past eleven years. The decreases result from several instances in which mileages between points have been recalculated, resulting in the application of a lower rate scale. This is due to changes in air mileages or to the

¹ Decision No. 48330, dated March 2, 1953, in Application No. 33596 (52 Cal. P.U.C. 422).

² Rates are published in 8 rate scales, depending on the distance involved, as measured by the short-line air mileage. Scale 1 is for distances up to 150 miles, each higher scale involves an additional 100 miles.

sought establishment of a zone system, to be discussed later.

Detailed analyses of intrastate shipments were made during two one-week periods³ and the data developed from these studies were expanded to give a picture of traffic and distribution of shipments between the various air lines involved for the year ended June 30, 1956. From this analysis, ton-miles and revenues under both the present and proposed rates for each of the seven air lines⁴ transporting air express in California were developed. All of these air lines, except American Airlines and Transworld Airlines, presented studies purporting to show the line-haul cost of transporting intrastate air express. Wherever possible California costs were used; however, the extent of this was very limited and allocations from system-wide costs were made for the large majority of expenses. It should also be pointed out that more than 90 per cent of the air lines' business is related to passenger service and as a result, the system expenses are primarily generated by and reflect passenger operations. The record shows that over 95 per cent of the intrastate ton-miles of air express is transported by the five air lines which introduced studies. An estimate of expenses for American and Transworld was made based on the same ton-mile costs as United experienced. A witness for United Airlines testified that in over-all system operations, the ton-mile costs of operation of

³ October 15 to 21, 1955, and April 1 to 7, 1956.

⁴ The seven air lines are American Airlines, Bonanza Air Lines, Southwest Airways, Transworld Airlines, United Airlines, Western Airlines and Los Angeles Airways. The last one named is a helicopter service operating within 50 miles of Los Angeles.

the three air lines are very similar. These studies show a cost of \$260,521 to the air lines for transportation expenses of air express for the period in question. Witnesses for the air lines testified that the formula used in their exhibit was used by the Civil Aeronautics Board in a trunk line mail rate case but had not previously been used to separate intrastate expenses.

Witnesses for the applicant introduced studies which developed the costs of applicant for handling intrastate air express shipments. These costs do not include the expenses experienced by the air lines for transportation from airport to airport. The study was developed on the basis of costs incurred in California, where such costs could be determined, and other costs on the basis of system averages. Overhead and indirect costs were included as $9\frac{1}{2}$ per cent of the direct costs. This percentage is based on a detailed study made for the purpose of properly allocating such costs to air express operations. To this is added three per cent of the gross revenues as the expense of traffic department sales forces. These costs were restated to reflect wage increases and benefits and other known cost increases incurred since the start of the test year. The agreement with the air lines provides that after Railway Express Agency deducts the expenses shown above, 80.69 per cent of the amount remaining is paid to the air lines for their transportation expense. The balance of 19.31 per cent is retained by applicant

to cover promotion and development of the service, contingencies and other expenses not otherwise covered. A summary of this study is shown in Table 1, below:

TABLE NO. 1

AIR EXPRESS REVENUES AND EXPENSES
Year Ended June 30, 1956

<u>Item</u>	<u>Present Rates</u>		<u>Proposed Rates</u>
	<u>Actual Costs</u>	<u>Restated Costs*</u>	
Revenues	\$430,935	\$430,935	\$690,491
REA Direct Costs	349,446	386,134	386,134
Overhead and Indirect	32,568	36,053	36,053
Sales Expense	<u>12,928</u>	<u>12,928</u>	<u>20,715</u>
Total REA Expense	\$394,942	\$435,115	\$442,902
Balance for Distribution	\$ 35,993	\$ (4,180)	\$247,589

* Actual costs restated to reflect known cost increases.
() Indicates deficit.

Another exhibit introduced by applicant compared the intrastate revenues with the sum of Railway Express Agency's costs and the air lines' costs. This exhibit shows that under the proposed rates, the intrastate revenues would fail to meet the total expenses by \$12,932.

At present the California intrastate rates are based on the operating short-line air mileage between the points involved. Applicant seeks to adopt for intrastate rate purposes the zone system put into effect throughout the country, except on California intrastate traffic, on April 1, 1954. With constant changes in route patterns according to the witness, the use of point-to-point mileages requires constant changes in rate scales. The zone system divides the country into blocks and designates a key point in each block for computation of mileages from and to all points in the block. Each of the air blocks consists of two rail express blocks and covers

an area approximately 100 miles east to west and 69 miles north to south. Adoption of this plan will result in changes in rate scale numbers, both up and down. However, as the key point in each block is one of the major offices, the majority of the shipments will not be affected.

Applicant also seeks authority to make changes in several of the rules governing air express shipments, which would result in increases. Charges for excess valuation and for handling C.O.D. shipments are proposed to be increased. At present, applicant's tariff provides a limit of liability of \$50 for shipments weighing 100 pounds or less and 50 cents per pound for heavier shipments. Excess valuation is charged for at the rate of 11 cents for each \$100 or a fraction thereof. It is proposed to increase the 11-cent rate to 18 cents and to provide different limits on cut flowers. For cut flowers it is proposed to establish a limit of \$10 liability on shipments of 100 pounds or less and 10 cents per pound on heavier shipments, with an excess valuation charge of \$2.00 per \$100 value. The above changes, along with the proposed increases in C.O.D. charges are to bring the intrastate charges to the same levels as are in effect throughout the rest of applicant's operations.

The other rules change applies to the so-called light and bulky commodities. At present, applicant's tariff provides that on shipments exceeding 300 cubic inches per pound charges will be assessed on the basis of one pound for each 300 cubic inches. It is proposed to change the 300 cubic inch limit to 250 cubic inches. In support of this change, the witness testified that the 250 cubic inch limit applies generally on air freight, and that a more liberal limit on higher priority air express is inconsistent.

No one appeared in opposition to the granting of the application.

Conclusions

It appears that the present rates and charges do not cover the cost of providing the air express service as developed by the applicant in the record, and that even under the proposed rates, it is doubtful that revenues will meet the costs. The record shows that in many instances charges for air express shipments are less than for slower means of transportation. Under the present rates, between San Francisco and Los Angeles, it is cheaper to send shipments of up to almost 50 pounds in weight by air express than by rail express, and cheaper up to 25 pounds by air express than by motor or rail freight.

The question of "light and bulky" rules of all carriers is under investigation by the Commission in Case No. 5840. In view of this situation, it appears that any change in applicant's rules pertaining to this subject should await the issuance of a decision in Case No. 5840. When that proceeding is decided, a supplemental order in this application will be issued.

Upon consideration of all of the facts and circumstances of record, the Commission is of the opinion and hereby finds that the rate increases and rules changes, except as specified above, sought by applicant in this proceeding are justified. The application will be granted to that extent. Applicant has requested that it be authorized to establish the sought increases on one day's notice to the Commission and to the public. Such short notice does not appear justified. Instead, five days' notice will be authorized. In authorizing the increased rates we do not make any finding as to the reasonableness of any particular rate or charge.

O R D E R

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

IT IS ORDERED:

(1) 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 increased air express rates, charges, and rules proposed in the above-entitled application, except proposed Rule 9 (replacing Rule 14 of Air Express Tariff Cal. P.U.C. No. 9 (AE)).

(2) 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 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 will be construed as consent to this condition.

(3) That the authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

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

Dated at San Francisco, California, this 10th day of December, 1957.

Robert E. Mitchell
President

James W. Lawrence

William D. Doster

R. Kniff

S. L. Fox
Commissioners