ds

ORIGINAL

Decision No. 58226

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of certain railroads and connecting highway common carriers for authority to increase local and joint freight rates and charges.	Application No. 38557

Charles W. Burkett, Jr., for applicants.
Frederick G. Pfrommer and Robert A. Thompson, for railroad applicants.
Walter G. Treanor, for Western Pacific Railroad and Sacramento Northern Railway, applicants.
Marshall W. Vorkink, for Union Pacific Railroad Company, applicant.
Gordon, Knapp, Gill & Hibbert, by H. C. Alphson, and H. C. Feraud, for Southern California Rock Products Association, protestant.
W. Y. Bell, Royston E. Campbell, Enright, Elliott & Betz, by Joseph T. Enright, Scott D. Flegal, B. R. Garcia, Waldo A. Gillette, Ralph B. Harlan, William G. Higgins, Ralph Hubbard, W. F. McCann, James R. McNichol, A. E. Patton, Allen K. Penttila, for various shippers, shipper associations and other shipper interests; interested parties.
Walter I. Phillips, in propria persona, interested party.
J. C. Kaspar, A. D. Poe and J. X. Quintrall, for California Trucking Associations, Inc., interested party.
Cyril M. Saroyan, C. Ray Bryant, John L. Pearson, Timothy Canty, and Albert C. Porter, for the Commission staff.

SUPPLEMENTAL OPINION AND ORDER

By this application, as amended by its second and third amendments, California railroads and certain connecting highway carriers seek authority to establish increased freight rates and charges. The increases now sought are in addition to those authorized by Decision No. 55942, dated December 10, 1957, in this proceeding and in Application No. 37697.

Public hearing was held before Examiner Carter R. Bishop at San Francisco on November 12 and 13, 1958, and January 21, 1959, and at Los Angeles on January 7 and 8, 1959.

By the aforementioned Decision No. 55942, which was issued ex parte, applicants were authorized to increase their California intrastate rates by 6 percent, pursuant to Application No. 37697,[1] and by an additional 5 percent, pursuant to the application herein, as amended by the first amendment thereto. Those increases were subject to specified exceptions and to certain maximum increase limitations. They corresponded to increases in interstate rates and charges authorized by the Interstate Commerce Commission in Ex Parte Nos. 196 (298 ICC 279) and 206 (299 ICC 429), respectively, and the granting of said intrastate increases was responsive to findings of the latter Commission in its decision dated November 29, 1957 in Dockets Nos. 32089 and 32089 Sub. No. 1.[2]

The further sought increases in intrastate rates with which the decision herein is concerned correspond to certain increases in interstate rates which were authorized by the Interstate Commerce Commission subsequent to the above-mentioned decision of November 29, 1957. They are as follows: (1) in lieu of the 5 percent increase authorized in Ex Parte No. 206, a 12 percent increase (making an additional increase of approximately 7 percent), and (2) increases of varying percentages, dependent on the commodity involved, estimated at approximately 2 percent in the aggregate, under ICC Ex Parte No. 212.[3]

1 The 6 percent increase sought in Application No. 37697 was originally denied by Decision No. 54215, dated December 11, 1956.

2 The ICC dockets in question were investigations into California intrastate rates prompted by a petition of the rail lines filed under the provisions of Section 13 (4) of the Interstate Commerce Act.

3 At the hearings counsel for applicants stipulated with the Commission's staff that on California intrastate traffic this latter increase, if authorized, might amount to as much as 3 percent in the aggregate.

These latter increases are to be applied to the base rates as increased by the aforementioned 12 percent.[4]

Applicants propose that the currently sought increases of 7 and 2 percent be made subject to the same exceptions, limitations and other provisions as those entailed in the corresponding interstate adjustments. In addition they propose that said increases shall not apply to the class and commodity rates named in Pacific Southcoast Freight Bureau Tariff No. 255-F, nor to rates on refined petroleum products in tank cars, nor to certain carload commodity rates, including certain rates for movement in trailer-on-flat-car service. All of these additional exceptions, the record shows, involve rates which applicants, for competitive reasons, have kept on the same levels as those maintained by highway carriers for the same movements.

According to exhibits of record applicants have experienced substantial increases in wage costs and related payroll expenses since December 30, 1956, the effective date of the aforementioned 6 percent and 5 percent rate increases. The cost of materials and supplies during the period from January 1, 1957 to July 1, 1958, reflected, on an over-all basis, a slight decline.

At the hearings, witnesses for the major railroads of the State introduced exhibits setting forth results of operation for California intrastate freight traffic for the year 1956. Including subsidiary and related companies, these showings reflect the results of studies of separations of intrastate revenues and expenses from those relating to interstate traffic, for 14 of the 35 railroad applicants.[5] The revenues, expenses and net operating income, or losses, for 1956, as thus developed, are summarized in Table I following:

4 For convenience, the 5 percent increase in intrastate rates authorized by Decision No. 55942, supra, and the sought increases of 7 percent and 2 percent will be identified sometimes hereinafter, as the Ex Parte 206, Ex Parte 206-A and Ex Parte 212 increases, respectively.

5 The record discloses that, of the total California intrastate revenues received during the year 1957 by the applicant railroads as a group, but excluding six switching roads, 97.3 percent accrued to the 14 applicants included in the study. The remainder of 2.7 percent accrued to 14 short-line roads and to the Great Northern Railway, which has relatively little trackage in California.

TABLE I

Operating Results for California Intrastate Freight Traffic as Developed by Applicants, For Calendar Year 1956

Road	Revenues	Expenses	#Net Railway Operating Income
Southern Pacific	$44,573,501	$64,045,177	$(19,471,676)
Santa Fe	17,127,719	16,127,215	1,000,504
Northwestern Pacific	7,462,193	6,546,175	916,018
Pacific Electric	3,911,127	8,801,025	(4,889,898)
Union Pacific	2,304,224	2,738,575	(434,351)
Western Pacific	2,052,475	3,809,918	(1,757,443)
San Diego & A. E.	1,084,818	507,824	576,994
Sacramento Northern	375,536	692,926	(317,390)
Tidewater Southern	126,001	175,446	(49,445)
Petaluma & Santa Rosa	112,239	350,093	(237,854)
Central California Traction	101,569	268,539	(166,970)
Holton Inter-Urban	67,528	57,377	10,151
Sunset	58,555	101,692	(43,137)
Visalia Electric	5,744	25,841	(20,097)
Total	$79,363,229	$104,247,823	$(24,884,594)

Before provision for income taxes.

(   ) - Indicates red figure.

Applicants' witnesses also introduced exhibits reflecting the foregoing results of intrastate operations for the year 1956 as adjusted to give effect, on a 12-month basis, to the increases in wages and payroll expense which have occurred since January 1, 1956, also to the additional revenues accruing under the horizontal rate increases granted applicants since that date. The adjustments thus made reflect the revenue and expense situation as of November, 1958. Additionally these revised estimates of operating results were further adjusted to give effect, for a 12-month period, to the rate increases herein sought. The estimated operating results attributable to California intrastate traffic under the sought rates, as thus developed by applicants, are summarized in Table II following.

TABLE II

Estimated Results of Operations Attributable to California Intrastate Freight Traffic For Calendar Year 1956, Adjusted as of November, 1958, And Further Adjusted to Include Sought Rate Increases.

Road	Revenues	Expenses	#Net Railway Operating Income
Southern Pacific	$54,283,670	$71,275,877	$(16,992,207)
Santa Fe	20,797,457	18,283,589	2,513,868
Northwestern Pacific	8,993,941	7,285,238	1,708,703
Pacific Electric	4,512,352	9,794,661	(5,282,309)
Union Pacific	2,763,976	3,034,341	(270,365)
Western Pacific	2,337,620	4,352,631	(2,015,011)
San Diego & A. E.	1,314,115	565,360	748,755
Sacramento Northern	427,605	762,969	(335,364)
Tidewater Southern	143,696	193,108	(49,412)
Petaluma & Santa Rosa	139,974	389,759	(249,785)
Central California Traction	115,689	296,437	(180,748)
Holton Inter-Urban	82,287	63,878	18,409
Sunset	72,543	113,214	(40,671)
Visalia Electric	7,208	28,769	(21,561)
Total	$95,992,133	$116,439,831	$(20,447,698)

Before provision for income taxes.

(   ) - Indicates red figure.

An assistant general auditor of Southern Pacific introduced an exhibit reflecting the additional revenues estimated for each of the 14 roads under the proposed Ex Parte 206-A and Ex Parte 212 increases, respectively. The estimates were applied to California intrastate freight revenues received during the calendar year 1957. The total such revenues received by the 14 roads amounted to $90,049,154. The estimated revenue increases under the sought rates are: $5,224,420 and $1,661,190 under the Ex Parte 206-A and Ex Parte 212 increases, respectively, reflecting a total estimated annual revenue increase of $6,885,610. As previously stated, applicants have assumed an average rate increase of 2 percent under the Ex Parte 212 proposal, although applicants stipulated with the staff that the increase might be as high as 3 percent.

Intrastate revenue figures are readily obtained from the carriers' records. This is not true with respect to intrastate expenses. In the accounts, the expenses incurred in transporting shipments in intrastate commerce are mingled with those which relate to interstate traffic. Consequently, it was necessary for applicants to make special separations studies in order to arrive at the figures which are set forth in the "expenses" column of Table I, supra. Studies of this character, the record shows, were undertaken in the Fall of 1957 and required approximately 13 months to complete.[6] The studies were conducted by personnel of Southern Pacific, Santa Fe, Western Pacific and Union Pacific.

Comprehensive exhibits were introduced at the hearings in which the procedures employed in the separation studies were set forth and illustrated, step by step. Detailed explanations of these procedures, as developed in the bureau of transportation research of Southern Pacific, were made by the assistant manager of that bureau.[7] The record indicates that, to the extent possible, the procedures utilized by the Southern Pacific and its subsidiaries were employed also by the other roads engaged in the studies. In general, such deviations from the standard procedures as occurred were necessitated by a lack of uniformity in the degrees of refinement of data maintained in the records of the respective applicants. Agreement as to the procedures to be followed was established at several conferences of the key representatives of the respective applicants engaged in the project.[8]

An outline of the procedures generally followed by applicants in their expense separation studies is given in Appendix "A"

6 According to an exhibit of record 13,400 man hours were consumed in the project by personnel of the Southern Pacific executive, operating and accounting departments. This figure does not include time spent by other departments of that road nor by employees of the other railroads which participated in the project. The abovementioned figure includes also time spent in developing separations of intrastate investment, hereinafter discussed.

7 Other witnesses who testified for applicants regarding the separations studies were the statistician of Santa Fe, an assistant to the general auditor of Western Pacific and a Union Pacific consultant.

8 Conferences also took place, during the course of the project, between said representatives of applicants and members of the Commission's staff.

hereof. Necessarily, the numerous details of separation methods and bases involved in the prosecution of the studies must be omitted from such a general description of the over-all plan. The rail witnesses testified fully regarding the processes involved and the rationale of same. Moreover, the witnesses were examined at length by the Commission's staff counsel relative to their respective studies.

As hereinbefore mentioned, the studies made by applicants embraced also expense separations of passenger traffic. In Appendix "B" hereof the California intrastate passenger operating results for the year 1956, adjusted to November 1958, as estimated by applicants, are compared with the corresponding freight operating results, the latter including the estimated effect of the rate increases herein sought. The passenger data, of course, are shown only for the five applicants which render passenger service in this State.[9]

In Appendix "C" hereof is a comparison of the intrastate and interstate expenses, as separated by applicants, of the six principal roads included in the study, for the year 1956. The revenues and net railway operating income are also shown. The interstate revenue shown, which purports to be that from the California portion of interstate traffic, reflects an arbitrary allocation, customarily used by the roads in their annual reports to this Commission.

In their separation studies applicants also made segregations of their respective net investments in the State of California as between intrastate and interstate services. These segregations were made for the 14 roads which were included in the expense studies. Some of these applicants maintain investment figures by states. Those which do not were required to apportion their system investment between states on some rational basis. According to the record, each applicant's total investment allocable to California was divided as follows: investment in terminals on the basis of carloads, and investment in

9 They are: Southern Pacific, Santa Fe, Union Pacific, Western Pacific and Northwestern Pacific.

line on the basis of gross ton miles.[10] In Appendix "D" hereof is set forth, for each of the roads included in the study, that portion of the California investment devoted to California intrastate freight traffic, as developed by applicants for the year 1956. Rates of return, if any, reflected by the estimated results of operation under proposed rates, as set forth in Table II, supra, are also shown.

The general freight traffic manager and an assistant freight traffic manager of Southern Pacific, speaking on behalf of all applicants, testified regarding the extent of the rate increases sought herein and the anticipated effect of said increases, if authorized, on applicants' freight traffic. The first-mentioned officer expressed the view that some diversion of traffic to other forms of transportation could be expected, at least temporarily, in a general rate increase. He was confident, however, that the sought increases would result in over-all increased revenues. This judgment was based on the experience of the rail carriers in prior general rate increases.

The traffic witnesses stated that applicants plan initially to put into effect all increases that may be authorized. They will study closely the movement of traffic, however, and will subsequently make such adjustments downward in individual rates as may be found necessary in order to retain the traffic in question for the rail lines. These witnesses were questioned extensively by the Commission's rate expert regarding various problems which arise in connection with the application of the increases sought herein to rates as to which one or more of the previously authorized general rate increases has been made inapplicable.

---

10 Since the smaller roads did not have detailed breakdowns of investment by accounts, their allocations were made on the basis of operating expenses, intrastate vs. interstate.

The granting of the increases herein sought was opposed by the Southern California Rock Products Association, representing all Los Angeles County producers, but one, of crushed rock, sand and gravel. The executive secretary of the association testified that since 1947 there has been a steady decline in shipments of rock products by rail from Southern California producing points,[11] while during the same period there has been a gradual increase in total production. He attributed the decline in rail movement to the series of general increases in rail rates which transpired during the period in question. The secretary admitted that a substantial portion of the traffic which moved from the deposits by truck would not have moved via rail in any event because of off-rail location of point of origin or of destination, or of both, as well as for other reasons.

The chief engineer of the largest member company of the aforementioned association testified that if the increases sought herein on rock products, amounting to ten percent, are established, his company will be forced to divert a substantial tonnage from rail movement to truck. He introduced exhibits showing (1) over-all rail costs to his company, including handling and movement within plants, as well as freight charges assessed by the rail lines and (2) rail tonnage shipped from said plants during 1958. While it appears that some tonnage would be diverted from rail because of lower truck rates,[12] still other tonnage would be diverted because of increased unit costs to the shipper for rail movement, which would be provoked by the first-mentioned category of tonnage diversions. Thus, the witness estimated

---

11
An exhibit introduced by this witness shows, however, that the tonnage of rock products shipped by rail from member plants was approximately the same for 1958 as for 1957.

12
The record indicates that some traffic of this producer moved via rail in 1958 at total cost to it which exceeded the charges concurrently applicable by highway carriers from and to the same points.

that, in terms of the 1958 figures, approximately 240,000 tons out of a total of 437,518 tons of rock products would be diverted to truck movement if the proposed increased rates were made effective on those commodities.

The director of research of California Trucking Associations, Inc., a nonprofit association of for-hire motor carriers operating throughout the state, testified concerning the position of that organization. C.T.A., he said, supports the granting of the relief sought by applicants. He pointed out that motor carriers in this state are largely subject to minimum rates established by the Commission and found by it to be reasonable; that, under statutory requirements and by appropriate tariff provisions, said minimum rates alternate with those of common carriers by land, including the railroads; and that where the latter rates produce lower charges for the same transportation such may be observed by highway carriers in lieu of the established minimum rates. Competition between carriers, the director indicated, has resulted in widespread use of the lower rail rates by highway carriers under the above-mentioned provisions. To the extent that this occurs, he stated, it places a burden on the for-hire truckers. Thus, granting of the application herein would benefit the highway carriers as well as the railroads.

In line with the foregoing expression the director requested that, in the event the rail rate increases are approved, the Commission issue a companion order authorizing or requiring highway common carriers to increase their rates where such action is necessary to conform to the requirements of the minimum rate orders. He pointed out that such companion orders have been issued under similar circumstances in the past.

At the concluding session of the hearings, the Commission's staff, having reviewed the separations studies of applicants in the light of the testimony of record with respect thereto,[13] introduced exhibits reflecting the results of its analysis of the separations problem. The exhibits were explained by an associate transportation engineer.

As explained in Appendix "A" hereof, one of the steps taken by applicants in developing their estimate of intrastate freight expenses for 1956 was to apportion the various items of California expense (intrastate and interstate combined) between the two general categories of terminal costs and line-haul costs. The staff differed with applicants as to the specific apportionments which had thus been made in certain of the expense items. Some of these differences reflected substantial amounts.[14] One of the staff exhibits reworks this part of the Southern Pacific expense separation study to give effect to the staff's views as to how the above-mentioned apportionments should be made.[15] In reconstructing the Southern Pacific study, the staff, for the purposes of its exhibit, made no changes other than those in Statement C (which involves the above-mentioned expense apportionments).

The net result of the staff's individual apportionments was to transfer approximately $15,500,000 of Southern Pacific California expense for 1956 from terminal to line haul. The effect of this staff adjustment was, in turn, to reduce the total California intrastate expense of Southern Pacific by approximately $4,600,000 to a total of $59,455,650. Correspondingly, the loss in handling intrastate freight traffic during 1956, as estimated by the carrier, was reduced by the staff by a like amount to $14,882,149.

---

13 The record also shows that the staff reviewed the work papers which underlie applicants' separations studies.

14 For example, the Southern Pacific witness had assigned all of the expense ($31,631,799) accruing under the heading of transportation-yard service (Accounts 377-389, inclusive) to terminal; whereas, the staff would apportion $22,743,263 to terminal and $8,888,536 to line-haul expense.

15 The staff did not make similar reconstructed studies for the other applicants because of lack of sufficient time.

The reason for the substantial reduction in California intrastate expense as set forth in the staff exhibit is that under the carrier's formula for allocation of California expenses between intrastate and interstate traffic 81.3 percent of line-haul expense accrues to interstate, with only 18.7 percent accruing to intrastate. Terminal expense, on the other hand, was allocated 51.6 percent to interstate, and 48.4 percent to intrastate traffic. As indicated above, these percentages were adopted by the staff for the purposes of its exhibit.

In order to check the reliability of the results obtained in its first exhibit, the staff developed, in a second exhibit, expense separations for California intrastate traffic by an alternative process, which it designated the direct and indirect expense method. This latter method utilizes the unit costs per ton and per ton mile, as developed in the carrier's study, in connection with tonnage and ton-mile statistics. By this method the staff arrived at $59,415,331 as the total California intrastate freight expense of Southern Pacific for 1956. This amount differs very little from that produced by the staff's reconstruction of the carrier's study. It was the engineer's opinion that this close agreement in the two results was indicative that the apportionments of expense between terminal and line haul, as made by the staff in its first exhibit, were for the most part logical and accurate.

The staff witness had also developed, by the direct and indirect expense method, estimates of California intrastate freight expense for 1956 for each of the other roads included in applicants' study. In Table III, below, the resulting figures of net railway operating income are compared with those worked out by applicants.

It should be here noted that in both of its exhibits the staff utilized the gross revenue figures set forth in applicants' exhibits.

Table III

Net Railway Operating Income from California Intrastate Freight Traffic for Calendar Year 1956, As Estimated by Applicants and Staff, Respectively

Road	#Applicants' Estimate	#Staff Estimate
Southern Pacific	$(19,471,676)	$(14,841,830)
Santa Fe	1,000,504	1,360,215
Northwestern Pacific	916,018	738,454
Pacific Electric	(4,889,898)	(4,674,580)
Union Pacific	(434,351)	261,655
Western Pacific	(1,757,443)	(1,418,676)
San Diego & A.E.	576,994	577,712
Sacramento Northern	(317,390)	(419,011)
Tidewater Southern	(49,445)	(54,084)
Petaluma & Santa Rosa	(237,854)	(242,718)
Central California Traction	(166,670)	(167,479)
Holton Inter-Urban	10,151	9,299
Sunset	(43,137)	(55,344)
Visalia Electric	(20,097)	(20,141)
Total	$(24,884,594)	$(18,946,528)

Before provision for income taxes.
( ) Indicates red figure.

It will be observed from Table III that the staff, by its method, estimated an operating deficit, for the 14 roads as a group, which is approximately $6,000,000 less than that estimated by applicants.

While the staff, in preparing its first exhibit, used the total California cost figures for each account which the Southern Pacific had developed in its own study, the staff engineer stated that, had a more complete and detailed staff study been feasible, the same costs would not necessarily have been used. He indicated several respects in which, under such circumstances, the staff figures would have been different.

The staff, moreover, was of the opinion that the samples of actual shipments used in the carrier studies were inadequate. As explained in Appendix "A" hereof, the samples were used to ascertain average intrastate and interstate costs per ton and per ton mile, from which weighting factors for intrastate and interstate statistics were computed. The staff witness expressed the view that instead of using the two samples of one tenth of one percent each, applicants could, with but little more work, have employed the full one percent sample of traffic which was secured from the Interstate Commerce Commission. He explained how this might have been done.[16]

As hereinbefore stated, the granting of the proposed rate increases was opposed by the Southern California Rock Products Association in so far as rates on rock, sand and gravel are concerned. No other parties registered protests or adduced evidence. The California Trucking Associations, Inc., as also previously stated, supported applicants in their request for relief.

Conclusions

The evidence adduced by applicants in this phase of Application No. 38557 represents a first attempt on the part of the railroads, in a proceeding of this type, to furnish the Commission with California intrastate freight expense and investment figures.[17] In Decision No. 54215, dated December 11, 1956, in Application No. 37697, the Commission pointed out that evidence of California intrastate freight revenues, expenses and investment of the applicant roads was required in order to determine whether the sought

16 The assistant manager of Southern Pacific's bureau of transportation research testified in rebuttal, however, that use of the full sample would have taken substantially more time than did the samples that were studied. He further explained that the adequacy of the samples used was demonstrated by a standard error procedure to which the data were subjected for such purpose.

17 In previous general increase applications, as in this proceeding, the railroads introduced exhibits setting forth California intrastate revenues of the principal roads involved.

rate increases were justified. In the instant proceeding applicants have attempted to make such showings. That the effort has been made in all seriousness and wholeheartedly is evidenced by the amount of time that has been devoted by railroad personnel in developing the studies.

The period selected by applicants for their basic study is the calendar year 1956. As explained in Appendix "A" hereof, this period was the most recent one available, since the IBM cards prepared by the Interstate Commerce Commission and obtained by applicants for their traffic sampling were not made available to the latter until almost a year after the termination of the period studied. After the cards were secured, many months of analysis, computation and summarization of the data were necessary. In view of the circumstances, the basic period utilized by applicants is acceptable.

Assuming that the general plan which applicants followed in separating the California intrastate expenses from the expenses incurred in handling interstate traffic in California is reasonable, the contrasting results for 1956 as developed for Southern Pacific by that carrier and the staff, respectively, demonstrate the importance of making correct apportionments, in the first instance, of individual items of California expense (intrastate and interstate combined) between terminal and line-haul expense, respectively. This follows from the fact that in the subsequent breakdown into intrastate and interstate expenses the preponderance of line-haul expense is assigned to interstate traffic. Thus the greater the proportion of expense assigned to line haul in the first instance, the lower is the total California intrastate expense figure.

The staff estimate of Southern Pacific California intrastate expense for 1956, using the same general method but with some different apportionments between terminal and line haul, is some $4,600,000 less than the carrier's estimate. What the differences in estimate might have been had the staff made similar reconstructed studies for the other applicants, we do not know. The staff's alternate short-cut method of developing intrastate expense methods, whether or not it may be deemed reliable, shows substantial differences from the carrier estimates with respect to a few of the other applicants. Table III shows, for instance, that the staff estimate for Union Pacific would convert that carrier's estimate of an operating loss of $434,351 in handling 1956 California intrastate traffic to a net profit, before income taxes, of $261,655. As hereinbefore mentioned, there were other respects in which the staff was not in agreement with the carriers as to the procedures employed by them in developing their intrastate expense estimates.

Applicants adjusted their 1956 revenue and expense figures to reflect the situation, on an annual basis, as it prevailed in November, 1958, at the same time giving effect to the increase in revenues anticipated under a granting of the application. Those results are set forth in Table II, supra. To the extent that there may be improper treatment of expenses or statistical data in the basic 1956 studies, such improprieties are reflected in the estimated results shown in said Table II.

Of the 14 applicants studied, only four would conduct their California intrastate freight operations at a profit under the proposed rates, according to the figures shown in Table II. These are Santa Fe, Northwestern Pacific, San Diego and Arizona Eastern and Holton Inter-Urban. The other 10 roads show estimated deficits. Some of these are substantial, particularly that of the Southern Pacific, which reflects an estimated annual loss of about $17,000,000.

Even if the revenues shown in Table II were to be adjusted to include an average increase under the Ex Parte 212 proposal of 3 percent[18] in lieu of 2 percent, and if the expense figures shown in the table were to be adjusted to give effect to the differences reflected by the staff figures in Table III,[19] most of the applicants would still show a loss under the proposed increased rates. It appears that the estimated rates of return for those for which a profit is shown would not be unreasonable.

The general plan which applicants have followed in developing their estimates of California intrastate expenses and investment appears reasonable.[20] However, the evidence adduced by the staff, through its witness and through cross-examination of applicants' witnesses, indicates that, in the important matter of apportioning expenses between the terminal and line-haul categories applicants have not, in some instances, made proper allocations. Moreover, it appears from said evidence that in other respects the separations procedures employed by applicants could be improved. It should be emphasized, on the other hand, that these separations studies represent a pioneering effort. They naturally contain imperfections. In the light of the suggestions by the Commission staff, and with further study and analysis of the problems involved, the accuracy and reliability of the procedures will be enhanced. We are persuaded that the record herein contains sufficient evidence to support a finding that the sought increases are justified.

18 See footnote 3, supra.

19 It was not feasible for the staff, in the time available, to develop adjusted operating results corresponding to those adduced by applicants (summarized in Table II).

20 The record contains no evidence tending to controvert the propriety of the procedures employed by applicants in arriving at estimates of investment devoted to California intrastate traffic.

The protest of the Southern California rock producers is based on potential losses of rail traffic. Since this is a revenue proceeding it is concerned with the over-all requirements of the applicants. It is not an appropriate vehicle in which to determine the extent to which adjustments of commodity rates may be required to meet carrier or market competitive conditions. Authorization of the proposed increases should not be withheld for that reason.

Upon careful consideration of all the circumstances of record, the Commission finds that the increases in rates and charges sought herein have been justified. The application, as amended by the second and third amendments thereto, will be granted.

Applicants request that, because of the urgent need for relief, the proposed increases be made effective on one day's notice. Such short notice does not appear justified. Publication on not less than five days' notice will be authorized. Applicants also seek authority to publish the increased rates and charges in the same form as that authorized by the Interstate Commerce Commission for interstate rates, and to depart from the long- and short-haul provisions of the Constitution of the State of California and of the Public Utilities Code to the extent necessary to effect said proposed increases. These requests appear reasonable. They will be granted.

At the conclusion of the hearings counsel for applicants renewed its motion[21] that the relief sought herein be granted on an interim basis pending a final determination of the issues. The motion is hereby denied.

21 The motion was first made at the initial hearings on November 13, 1958. It was denied by Decision No. 57752 of December 16, 1958.

O R D E R

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

IT IS ORDERED that:

1. Applicants are hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the increases in rates and charges, as proposed in the application, as amended by the second and third amendments thereto, filed in this proceeding.

2. Applicants are hereby authorized to depart from the provisions of Article XII, Section 21 of the Constitution of the State of California and of Section 460 of the Public Utilities Code to the extent necessary to effect the increases herein authorized.

3. Applicants are hereby authorized to publish the increased rates and charges in the same form as that authorized by the Interstate Commerce Commission for the interstate rates. To the extent that departure from the terms and rules of Tariff Circular No. 2 of this Commission is required to accomplish such publication, authority for such departure is hereby granted.

4. 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 will be construed as a consent to this condition.

5. The authority herein granted shall expire unless exercised within sixty 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 7th day of April, 1959.

G. Lyn Fox
President

Peter E. Mitchell

Matthew J. Dooley

Theodore H. Jenner

Everett C. McKeage

Commissioners

Outline of Procedures Generally Utilized by Applicants in Developing Estimates of Operating Expenses, Attributable to California Intrastate Traffic for year 1956

1. California expenses for the year (intrastate and interstate lumped together) were determined separately for each freight and passenger account. Southern Pacific had expense data available by operating divisions. For divisions which operate both in California and in an adjacent state it was necessary to work out separations of expenses for the California portions of those divisions.

2. The California freight expenses thus obtained were then broken down by separate accounts into two categories, namely: those which are incurred in terminal operations and those which are generated in the movement of traffic between terminals. These two categories are related to the statistical units of (1) tons originated and terminated and (2) ton-miles, respectively. Thus the total expenses of Southern Pacific for moving intrastate and interstate traffic within California during 1956 was calculated as $214,883,658, which was broken down to $80,343,209 for terminal, and $134,540,449 for line-haul operations.

3. The two categories of expenses thus developed were then divided between intrastate and interstate traffic in the ratio of the total intrastate net tons to the total interstate net tons, originated and terminated in California during 1956 (for the terminal expenses) and of total intrastate net ton-miles to total interstate net ton-miles of freight service rendered in California during 1956 (for the line-haul expenses).

4. It was decided, however, that, before utilizing the respective intrastate and interstate tonnage and ton-mile figures as indicated in paragraph 3, said figures should be weighted to reflect the relative costs of handling intrastate and interstate traffic. This was accomplished through the development of costs involved in the transportation of individual shipments, in intrastate commerce and in interstate commerce, between California points. The procedure is explained in paragraphs 5 and 6.

5. A one-percent sample of all waybills for shipments terminating or originating on Class I roads in California during 1956 was obtained from the Interstate Commerce Commission. The data from the waybills was recorded by the ICC on so-called I.B.M. cards, and it was these cards which were furnished the Southern Pacific. Two sets were furnished, totaling approximately 40,000 cards. (The year 1956 was selected because it was the most recent complete year available when the study was made.) From the one-percent I.C.C. sample applicants selected every fifth and every tenth card of intrastate shipments, making two separate subsamples of 1/10 of one percent each. Similar subsamples were taken from the interstate cards. Additional samples were taken from actual waybill records of applicants for shipments originating and terminating on lines of those applicants which are not Class I roads.

6. The shipments included in the subsamples were then analyzed and unit costs (which had been previously developed according to an established procedure) were applied thereto. The costs of handling and transporting all the shipments in each sample were then expanded to 100 percent and aggregated to arrive at weighted average costs per ton and per ton-mile for intrastate and interstate traffic respectively. These costs were reduced to ratios of intrastate to interstate, which for Southern Pacific were as follows: terminal (tons) 1.00 (intrastate) to 0.65 (interstate); line-haul (ton-miles), 1.00 (intrastate) to 1.24 (interstate).

7. The actual tonnage and ton-mile figures mentioned in paragraph 3 were then weighted in accordance with the factors developed as in paragraphs 5 and 6. The relationships of the weighted intrastate statistics to those for interstate traffic were then stated as percentages, which, for Southern Pacific, were as follows: (1) tons, 48.4 percent (intrastate), 51.6 percent (interstate); (2) ton-miles, 18.7 percent (intrastate), 81.3 percent (interstate).

8. The percentage factors calculated as in paragraph 7 were then applied to the total expense figures for terminal and line-haul services, respectively, as developed in paragraph 3. Thus the California intrastate portions of those aggregates were, for Southern Pacific, $38,886,113 (terminal expense) and $25,159,064 (line-haul expense). Summation of these two amounts gives the total of $64,045,177, shown in Table I of the foregoing opinion as the aggregate expense attributable to the handling by Southern Pacific of California intrastate traffic during the calendar year 1956.

End of APPENDIX "A"

APPENDIX "B"

Comparison of Net Railway Operating Income
from California Intrastate Freight and Passenger Traffic,
as Developed by Applicants, for Calendar Year 1956
Adjusted as of November, 1958
(With Allowance for Increases Sought Herein)

Road	Freight #	Passenger #	Total #
xSouthern Pacific	$(16,992,207)	$(13,459,319)	$(30,451,526)
Santa Fe	2,513,868	(6,554,283)	(4,040,415)
Northwestern Pacific	1,708,703	(417,164)	1,291,539
Pacific Electric	(5,282,309)	---	(5,282,309)
Union Pacific	(270,365)	2,956	(267,409)
Western Pacific	(2,015,011)	(185,411)	(2,200,422)
San Diego & A.E.	748,755	---	748,755
Sacramento Northern	(335,364)	---	(335,364)
Tidewater Southern	(49,412)	---	(49,412)
Petaluma & Santa Rosa	(249,785)	---	(249,785)
Central California Traction	(180,748)	---	(180,748)
Holton Inter-Urban	18,409	---	18,409
Sunset	(40,671)	---	(40,671)
Visalia Electric	(21,561)	---	(21,561)
Totals	$(20,447,698)	$(20,613,221)	$(41,060,919)

Before provision for income taxes.

x Does not include results of operation of San Francisco Peninsula commutation service.

( ) - Indicates red figure.

A. 38557 AH *

APPENDIX "C"

Comparison of Revenues, Expenses and Net Operating Income from California Intrastate Traffic with Those from the California Portion of Interstate Traffic, as Developed by Applicants for Six Principal Railroads for Calendar Year 1956

Road		Revenues	Expenses	Net Railway Operating Income #
Southern Pacific	C	$ 44,573,501	$ 64,045,177	$(19,471,676)
" "	I	168,359,443	150,838,481	17,520,962
Santa Fe	C	17,127,719	16,127,215	1,000,504
" "	I	63,192,080	50,740,911	12,451,169
Northwestern Pacific	C	7,462,193	6,546,175	916,018
" "	I	5,192,576	4,182,625	1,009,951
Pacific Electric	C	3,911,127	8,801,025	(4,889,898)
" "	I	11,210,545	6,304,019	4,906,526
Union Pacific	C	2,304,224	2,738,575	(434,351)
" "	I	24,467,395	17,286,609	7,180,786
Western Pacific	C	2,052,475	3,809,918	(1,757,443)
" "	I	23,183,750	19,486,395	3,697,355

C - California Intrastate Traffic.

I - Interstate Traffic.

Before provision for income taxes.

(   ) - Indicates red figure.

A. 38557 AH

APPENDIX "D"

Investment Devoted to California Intrastate Freight Traffic (Average for Year 1956), as Developed by Applicants. Also Estimated Rates of Return under Sought Rate Increases

Road	Investment	Estimated #Rate of Return (Percent)
Southern Pacific	$211,336,463	-
Santa Fe	43,178,722	5.8
Northwestern Pacific	33,332,820	5.1
Pacific Electric	28,614,880	-
Union Pacific	10,949,389	-
Westen Pacific	13,110,116	-
San Diego & A.E.	3,227,156	x23.2
Sacramento Northern	4,143,961	-
Tidewater Southern	988,163	-
Petaluma & Santa Rosa	1,037,967	-
Central California Traction	1,436,161	-
Holton Inter-Urban	217,550	*8.4
Sunset	541,219	-
Visalia Electric	125,227	-

Before provision for income taxes.

x Estimated rate of return after provision for income taxes is 10.4 percent.

* Estimated rate of return after provision for income taxes is 3.7 percent.