

ORIGINAL

Decision No. 55313

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of RAILWAY EXPRESS AGENCY, )  
 INCORPORATED, a corporation, to in- )  
 crease certain intrastate rates, )  
 charges and classification provisions )  
 for rail express service within the )  
 State of California. )

Application No. 40678

Pillsbury, Madison & Sutro and Eugene M. Prince, by  
Dudley A. Zinke, for applicant.  
Albert C. Porter, for the Commission's staff.

O P I N I O N

By this application, as amended, Railway Express Agency seeks authority to increase by 15 per cent its less-than-carload express rates and charges applicable to its California intrastate surface operations, subject to certain exceptions.<sup>1/</sup> Authority is also sought to make changes in certain of its classification provisions and to cancel a so-called "baggage" tariff.

Public hearing of the application was held before Examiner Carter R. Bishop at San Francisco on February 13, 1959. Evidence on applicant's behalf was introduced by two of its traffic and accounting officials and by several operating, traffic and executive department officials of two of the major California railroads. A member of the Commission's staff assisted in the development of the record.

The increases herein sought are the same as those which were authorized by the Interstate Commerce Commission for interstate traffic in its decision dated October 13, 1958, in Ex Parte No. 210. The interstate increases became effective November 11, 1958. Applicant's regional traffic manager testified that the same conditions

<sup>1/</sup> No increases are proposed in rates and charges on milk, cream, daily newspapers, human remains; in the minimum charge of \$2.01; and in commodity rates on fresh fruits, fresh fish, and other sea food.

which justified increases in interstate rates obtained with respect to California intrastate rates. No distinction, he said, is made in the handling of interstate and intrastate shipments. The two classes of traffic are handled in the same motor vehicles, pass through the same terminals, are transported in the same railroad baggage cars, and at all stages are handled by the same Railway Express employees. He asserted that the proposed increases are necessary in order that the California traffic may bear its fair share of the cost of express operations.

The record indicates, also, that the relief herein sought is prompted by increases in operating costs which applicant has experienced since California intrastate express rates were last increased, in October 1956 (class rates), and January 1957 (commodity rates). These operating expense increases relate not only to wages and salaries but also to the cost of materials and supplies.

The changes proposed in classification provisions correspond to those made applicable to interstate traffic in Supplements Nos. 10 and 12 to Official Express Classification No. 36. Both increases and reductions are involved.<sup>2/</sup>

The "baggage" tariff sought to be cancelled is applicable to the transportation of baggage and kindred articles moving between Southern California points formerly served by passenger trains of Pacific Electric Railway. The charges set forth in the baggage tariff, the traffic manager stated, were originally established to provide Pacific Electric passengers with express service for baggage at reduced rates, since Pacific Electric did not provide baggage service. He pointed out that the latter carrier terminated all passenger service over its lines in 1953. Very little traffic, the record indicates,

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<sup>2/</sup> Aside from the increase of 15 per cent in the various charges set forth in these supplements, the only proposed increase is to advance the classification rating on plastic windshields from first class to double first class. The supplements also include changes resulting in neither increases nor reductions.

moves under the tariff at the present time. It is the position of applicant that, in view of the above-mentioned circumstances, further maintenance of the special commodity rates named in the baggage tariff is not justified. On cancellation, first-class rates would apply.

In the event that the rate increases herein sought are authorized and established, the traffic manager testified, it is anticipated that there may be some diversion of traffic to other means of transportation. In the judgment of applicant's traffic department, such diversion would not exceed 5 per cent.

Applicant's accountant witness presented an exhibit in which he had developed estimated revenues and expenses under present and proposed rates, based on the traffic handled during the 12-month period ending July 31, 1958. According to this exhibit, applicant's California intrastate revenues for the period in question were \$2,156,964. Under the proposed rates they are estimated at \$2,462,520, reflecting an increase of \$305,556.<sup>3/</sup> After deducting estimated operating expenses for the rate year, adjusted to wage and other cost levels as of November 1957, the amounts available for distribution to the rail carriers, as reflected by the exhibit, would be \$318,031 at present rates and \$623,587 under the proposed rates.<sup>4/</sup>

As has been explained in prior decisions involving Railway Express Agency, under its contract with the underlying rail lines

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<sup>3/</sup> The accountant's estimate made no allowance for diversion of traffic due to increases in rates.

<sup>4/</sup> The record discloses that applicant handled no carload shipments of express in California intrastate commerce during the year ended July 31, 1958. The traffic manager was of the opinion that none had been handled since that date. The above-stated figures and those shown hereinafter will be deemed to relate solely to less-than-carload shipments.

the balance of revenues remaining after payment of the Agency's operating expenses is remitted to the railroads for the services which they perform in transporting express shipments. According to the accountant's exhibit, of the gross revenues anticipated under the sought rates, 25.32 per cent would be available to the railroads to meet the rail costs of the services involved. The accountant estimated, however, that 53.15 per cent of such revenues would be required to reimburse the rail carriers for their costs only and that this figure would be 67.24 per cent were provision also to be made for a reasonable return on the facilities of the rail carriers which are used in the transportation of express. This witness estimated that, even under the increased rates herein sought, applicant's California intrastate revenues would, for the rate year, be deficient by more than a million dollars in meeting the costs and providing a reasonable profit.

Rail representatives appearing on behalf of applicant introduced exhibits to show that, under present rates, applicant's payments to the railroads for express privileges are insufficient to return even the out-of-pocket costs which the latter carriers incur in the transportation of express shipments. A transportation analyst of Southern Pacific Company introduced the results of a study of revenues and out-of-pocket expenses applicable to a year's operations of 26 passenger trains which are said to move the bulk of California intrastate express shipments transported over that road. The statistician of The Atchison, Topeka and Santa Fe Railway Company presented the results of a similar study embracing six months' operations of 15 passenger trains within California.

According to the exhibits of the rail witnesses, estimated out-of-pocket expenses incurred by Southern Pacific in transporting

California intrastate express shipments on the 26 trains exceeded revenues (express privilege payments) by \$637,290 on an annual basis. Revenues were those received from applicant during the 12-month period ended July 31, 1958, while expenses were adjusted to reflect January 1, 1959 cost levels. The corresponding figures of the Santa Fe for six alternate months during the same period reflected an out-of-pocket loss for that road, in the handling of California intrastate express traffic on the 15 trains, of \$44,134. Converted to an annual basis, the deficit would amount to \$88,268. Santa Fe costs were those incurred during the 12-month period ended July 31, 1958, or, in some cases, adjusted to reflect the level prevailing at the end of that period.

According to the other rail witnesses, the express privilege payments received by Southern Pacific and Santa Fe comprise 35 per cent and 20 per cent, respectively, of the total of such payments by applicant to all railroads in the Mountain-Pacific group.

Wide notification of the hearing in this matter was given to persons and organizations believed to be interested. No one appeared in opposition to the granting of the application.

#### Conclusions

The record shows that, since applicant's rates were last adjusted, it has experienced substantial increases in the costs of providing rail express service. Also it is clear from the record that applicant's present rates do not return the costs of the services and that even the sought rates will not return all of the costs. This does not necessarily mean that the revenue deficiencies set forth in applicant's exhibits are as great as indicated therein. It should be

pointed out that applicant's showing, as in past proceedings, was developed in part upon averages of the carrier's system-wide operations. To that extent the showing is predicated on the assumption that the underlying relationships which were developed for the system apply also to the California intrastate operations in the same degree. Even in the absence of an exact determination of operating results of the services here in issue, however, it appears that applicant has established the need, of its intrastate operations, for the additional revenues which the sought rates would return. On this basis the proposed increases in rates and charges are found to be justified. We also find that the proposed changes in classification and the proposed baggage tariff cancellation have been justified.

Applicant seeks relief from the long-and-short-haul provisions of Article XII, Section 21, of the Constitution of the State of California and of Section 460 of the Public Utilities Code in order to establish the sought increases in connection with certain rates which are non-intermediate in application. Applicant also seeks relief from the provisions of Tariff Circular No. 2 to the extent necessary to publish the increased rates and charges in the same form as tariffs filed with the Interstate Commerce Commission. These requests appear reasonable. They will be granted. Authority is sought also to make the proposed rate, tariff and classification adjustments effective on less-than-statutory notice. In view of the demonstrated need for additional revenues to offset present losses, this request also will be granted.

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. 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 adjustments in express rates, charges and classification provisions, including the cancellation of Baggage Tariff Cal. P. U. C. No. 245, as proposed in the application, as amended, filed in this proceeding.

2. Applicant be and it is 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 adjust long-and-short haul departures now maintained in Tariff Cal. P. U. C. No. 244, 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. Applicant shall, thereafter, publish in its tariffs the specific increased rates and charges authorized herein not later than one hundred and eighty days after the effective date or dates of the rates and charges.

3. 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.

4. 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 Los Angeles, California, this 28<sup>th</sup> day of April, 1959.

E. Lynn Fox  
President

Robert E. Doherty

Marshall D. Cook

Theodore J. ...

Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.