

ORIGINALDecision No. 59856

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of RAILWAY EXPRESS AGENCY,
 INCORPORATED, to increase certain
 intrastate rates, charges and classifi-
 cation provisions for rail express
 service within the State of California.

Application No. 41607

Pillsbury, Madison & Sutro, and Eugene M. Prince,
 by Dudley A. Zinke, for applicant.
Rita L. Heiser, for the Commission staff.

O P I N I O N

By this application, as amended, Railway Express Agency seeks authority to increase its less-than-carload express rates and charges applicable to its California intrastate surface operations, subject to certain exceptions.¹ A single change in classification rating is also proposed.

Public hearing of the application was held before Examiner Carter R. Bishop at San Francisco on December 16 and 17, 1959. Evidence on applicant's behalf was introduced by its general traffic manager, its assistant controller, its general manager of the Mountain-Pacific region, and by several operating, traffic and executive department officials of two of the major California railroads. A member of the Commission's legal staff assisted in the development of the record.

The increases herein sought are twofold. They are the same as those authorized by the Interstate Commerce Commission for interstate traffic, as follows:

¹ No increases are proposed in rates and charges on milk, cream, and related commodities, daily newspapers, and human remains.

(a) By supplements which became effective September 1, 1959, all interstate express less-than-carload rates and charges, subject to certain exceptions, were increased by 35 cents, and in a few instances by 25 cents, per 100 pounds, with minimum increases of 35 cents and 25 cents, respectively, per shipment.

(b) By decision dated June 24, 1959, in Ex Parte 210, Railway Express Agency was permitted to remove a certain restriction against the application of a previously authorized² increase in less-than-carload interstate rates and charges of 15 percent. The exception in question had provided that said 15 percent increase should not apply on traffic moving from retail stores to customers. By authority of the aforesaid decision of June 24, 1959, this restriction was removed, effective July 10, 1959, except as to articles moving under so-called "incentive" rates when the total weight of such articles tendered at one time at one address is 300 pounds or more.³

The original 15 percent increase, including the restriction against retail store traffic, was authorized for application to California intrastate traffic by this Commission's Decision No. 58313, dated April 28, 1959, in Application No. 40678.

In addition to the above-described proposed increases, applicant seeks authority herein to increase its classification rating on empty plastic flower pots from first class to double first class.⁴ The basis for the proposed rating is the fact that the articles in question, as packed for shipment, are bulky and of low density, resulting in more costly handling than is experienced with average shipments

² By Interstate Commerce Commission decision dated October 13, 1958, in Ex Parte 210. The effective date of the 15 percent increase published pursuant thereto was November 11, 1958.

³ The interstate adjustments of July 10, 1959, and September 1, 1959, did not apply to rates and charges on milk, cream and related articles, daily newspapers and human remains.

⁴ The rating herein proposed for California intrastate application became effective as to interstate traffic on December 15, 1959.

of first class articles.

Applicant's general traffic manager testified that the same conditions which justified increases in interstate express rates and charges prevailed with respect to California intrastate rates. No distinction, he stated, 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 handled by the same Agency employees and are transported in the same baggage cars. He asserted that the proposed rate 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 proposed rate increases are prompted by increases in operating costs which applicant has experienced since April 28, 1959, when the aforementioned Decision No. 58313 was signed. The increased costs include wages and related expenses, together with the cost of materials and supplies.

Relative to the proposal to permit the 1959 rate increase of 15 percent to apply to retail store traffic, the traffic manager testified that the Agency had found it to be difficult, with the existing restriction against such traffic, to assess charges correctly. This was due, he said, to the inability of the carrier, in many instances, to identify traffic moving from retail stores to customers.⁵

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. The carrier's traffic department estimated that such diversion would not exceed three percent.

⁵ Applicant has a substantial over-the-counter business at its terminals. Assertedly, it cannot determine whether shipments so tendered originated at retail stores or at wholesale stores.

The assistant controller 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 ended April 30, 1959. According to this exhibit, applicant's California intrastate revenues for the period in question were \$2,545,351.⁶ After adjustments to reflect normal traffic volume and to give effect to the 1959 rate increase, the revenues for the same period under present and proposed rates were estimated at \$2,495,894 and \$2,784,781, respectively.⁷ The additional revenue to be received under the proposed increased rates was estimated to be \$288,887.

After deducting estimated operating expenses for the rate year, adjusted to wage and other cost levels as of October 31, 1959,⁸ the amounts available for distribution to the rail carriers, as reflected by the above-mentioned exhibit, would be \$547,288 under a continuation of present rates and \$836,175 under the proposed rates.

As has been explained in prior decisions involving Railway Express Agency, under its contract with the underlying rail lines 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.⁹ According to the controller's exhibit, of the gross revenues anticipated under the sought rates, 30 percent would be available to the railroads to meet the rail

⁶ According to the record, applicant has handled no carload shipments of express in California intrastate commerce for several years past. The above-stated figures and those shown hereinafter will be deemed to relate solely to less than carload shipments.

⁷ The record discloses that, due to a teamster's strike, applicant enjoyed an abnormally large volume of California traffic during August and September, 1958.

⁸ Applicant's expense estimates do not give effect to an increase in wage rates and related costs which became effective on November 1, 1959.

⁹ Under a new agreement between applicant and the rail lines, which became effective October 1, 1959, the basis for compensation of the latter will eventually be substantially changed. Beginning with July 1, 1961, the railroads will be paid on a car-foot-mile basis.

costs of the services involved. The controller estimated, however, that 53 percent of such revenues would be required to reimburse the rail carriers for their costs only and that this figure would be 67 percent 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 14 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 \$614,295 on an annual basis. Revenues were those received from applicant during the 12-month period ended October 31, 1959, while expenses were those estimated for the 12-month period ended April 30, 1959, adjusted to reflect October 31, 1959 cost levels. The corresponding figures of the Santa

Fe for six alternate months during the 12-month period ended April 30, 1959, reflected an estimated out-of-pocket loss for that road, in the handling of California intrastate express traffic on the 14 trains, of \$50,733. Converted to an annual basis, the deficit would amount to \$101,466.

According to the other rail witnesses, the express privilege payments received by Southern Pacific and Santa Fe comprise 36 percent and 18 percent, 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

Railway Express Agency has, for some years past, experienced a continuing downward trend in the volume of traffic handled. According to the evidence of record, it has instituted a comprehensive program for the modernization of its operations and for increased efficiency and economy. The program includes, inter alia, the construction of new terminals, the purchase of new highway equipment, the installation of conveyors in terminals and of two-way radios for truck dispatch, and the consolidation of offices and of operating divisions. A large part of this program has already been effected.

Another aspect of applicant's effort to regain traffic, the traffic manager testified, relates to the general review of its entire rate structure in which the carrier is now engaged. The purpose of the review is to simplify the structure, and to adapt it to current competitive conditions and changing economic patterns in the transportation industry. The overhauling of the rate structure will

necessarily involve an extended period of time. Meanwhile, applicant is of the opinion that the rate increases proposed herein are urgently necessary in order to strengthen its financial position.

The evidence shows that applicant's present rates do not return the costs of the service and that even the proposed 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, are 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, 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 classification change has been justified. The application will be granted.

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, 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 applicant's tariffs 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

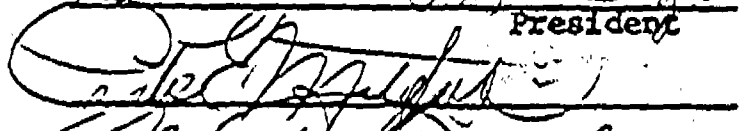
other proceeding, that the opinion and order herein constitutes a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted shall be construed as consent to this condition.

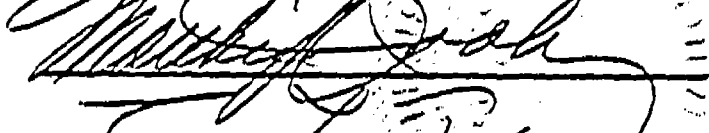
4. The authority herein granted shall expire unless exercised within sixty days after the effective date hereof.

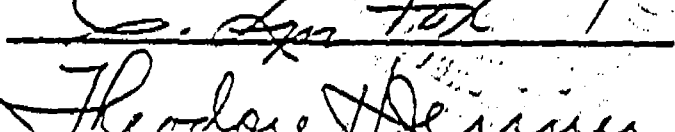
This order shall become effective twenty days after the date hereof.


Dated at San Francisco, California, this 29th day of March, 1960.



President







Commissioners