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Decision No. 76105

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| Application of RAILWAY EXPRESS AGENCY, INCORPORATED to increase intrastate rates and charges for surface express service. | Application No. 51027 (Filed April 24, 1969) |

O P I N I O N

Railway Express Agency, Incorporated (REA), is an express corporation operating throughout the United States, including Hawaii and Alaska, in both surface and air express service. Its surface express services utilize mainly railroads for long distance hauls and common carrier truck lines for local hauls. Collection and delivery are performed by applicant's own vehicles or by other for-hire motor carriers. By this application REA seeks to increase its first class California intrastate rates and minimum charges for surface express traffic and to cancel its intrastate second class rates and certain commodity rates. The sought changes in class rates and in minimum charges would parallel like adjustments which became effective with respect to applicant's interstate traffic on March 5, 1969. Applicant estimates that the increases herein sought will result in an increase in revenue of 7-1/2 percent for California intrastate surface express traffic.

Specifically, it is proposed that first class rates shall be increased by approximately five percent and that the minimum charge per shipment shall be increased from $5.50 to $6.00. The second class rates, the application states, apply principally to articles of food and drink. After cancellation of said rates the first class rates would apply to shipments of those articles. The valuation charge would also be increased from 23 cents to 25 cents per $100 of declared valuation. The commodity rates proposed to be cancelled apply on a wide variety of articles between various points in the state. They are set forth in applicant's "Local Competitive Tariff" and in a "Miscellaneous Commodities" tariff.[1/]

The application was carefully analyzed and additional data obtained relative thereto by members of the Commission's Finance and Accounts Division and its Transportation Division staffs. The results of these separate studies were incorporated in two reports, which are hereby received as Exhibits 1 (Finance and Accounts Division) and 2 (Transportation Division).

REA alleges that its California intrastate surface express operations are being conducted at a loss and will so continue, even if the sought increases are authorized; that it is currently encountering serious loses on its nationwide operations as a whole, which losses threaten REA's solvency and its ability to continue rendition of its historic express service; that the substantial parity between intrastate and interstate express rates, which granting of the application will effect, is necessary to avoid undue and unreasonable prejudice against shippers and localities involved in interstate commerce; and that REA's proposal will result in tariff simplification. Under the proposals, substantially all express charges and rules will be confined to three tariff publications.

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1/ The tariffs involved in the revisions proposed in this proceeding are identified on pages 1 and 2 of the application. Applicant maintains some commodity rates in other tariffs which are not affected by the application herein.

A summary of applicant's estimated revenues and expenses from California intrastate surface express operations for the year 1968, taken from the application, is set forth below:

California Intrastate Estimated Revenues and Expenses for Year Ended December 31, 1968

| | | |
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| Revenue | | $1,627,485 |
| Expenses and Taxes | $1,685,266 | |
| Purchased Transportation | 247,477 | |
| Total Cost of Service | | 1,932,743 |
| Excess of Cost Over Revenue | | $ 305,258 |

Applicant's estimates of revenues and expenses for intrastate surface express operations, adjusted to give effect to rate increases sought herein and to known increases in expenses, are set forth below:

California Intrastate Estimated Revenues and Expenses Adjusted for Sought Revenue Increase and Known Changes in Expenses

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|---|---|---|
| Revenue | | $1,822,093 |
| Expenses and Taxes | $1,866,683 | |
| Purchased Transportation | 200,300 | |
| Total Cost of Service | | 2,066,983 |
| Excess of Cost Over Revenue | | $ 244,890 |

Statements attached to the application set forth the steps by which the estimates of operating results summarized in the tables above were developed. Applicant does not separate its California intrastate revenues and expenses from its total operations. It does, however, maintain records of all shipments handled at California stations (interstate and intrastate), as well as the revenue from such shipments and expenses incurred by those stations. The number of intrastate shipments and the intrastate revenue are then estimated by applicant on the basis of a four-month actual count of waybills covering intrastate shipments from all stations in California. Intrastate expenses are estimated by taking a percentage of the total California expenses, based on the relationship of the estimated intrastate shipment handlings to the total California shipment handlings. This relationship is estimated to be 9.21% for 1968. Total California expenses are those incurred at the California stations in handling shipments originating and/or terminating in California.

The cost of purchased transportation is also an estimated figure based on the estimated number of intrastate shipments and the average cost per carfoot mile. This latter figure is obtained from contracts negotiated with the underlying carriers who perform intrastate transportation for applicant on the basis of linear feet used in the underlying carrier's vehicle.

Exhibit 1 sets forth in detail, as developed by the staff, the procedures employed by applicant in arriving at its estimates of California intrastate surface revenues and expenses for the year 1968 and as anticipated under the proposed rates at current expense levels. It is not deemed necessary to incorporate herein the staff's analysis. The Finance and Accounts Division concludes that the increase in revenues produced by the requested increase in rates will not result in excessive earnings or return on applicant's California intrastate operations. Both staff divisions believe that the methods that have been employed by applicant in estimating its intrastate revenues and expenses are reasonable and acceptable for the purposes of this proceeding.[2/]

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2/ Applicant is a Delaware corporation headquartered in New York, where its basic corporate and accounting records were made. The staff, therefore, has not been able to examine such records or to test-check the financial information set forth in the application or separately furnished the staff by applicant. The Finance and Accounts Division points out that its above-stated conclusion is subject to the qualifications inherent in the assumptions which it has necessarily made, under the circumstances, in its analysis.

In tables attached to Exhibit 2 the Transportation Division staff has made a series of comparisons, for the past ten years, of applicant's operating results, as experienced systemwide and as estimated for California intrastate traffic. Thus, estimated revenues from the latter traffic ranged from a low point of $1,010,000 in 1961 to a high of $1,946,000 in 1967, followed by a sharp drop to $1,628,000 in 1968. The estimated California intrastate operating ratios reflected loss positions during the entire ten-year period. Also during the entire period the ratio of California intrastate revenues to applicant's system revenues did not exceed six-tenths of one percent. During the ten-year period, system operating ratios ranged from a low figure of 89.7 percent in 1962 to a high of 101.5 in 1968, the first year in the period in question in which a net loss was experienced in system operations. All of the above-stated figures in this paragraph relate to the company's total operations, including surface and air express service, and nontransportation revenues.

Applicant proposes to cancel two commodity rate tariffs and its second class rates, Exhibit 2 states, because these rates have very little use. About 15 percent of applicant's intrastate traffic is ratable under the commodity tariffs; the second class rates, as hereinbefore mentioned, apply on articles of food and drink, which comprise a very small part of the carrier's traffic. About 48 percent of its intrastate traffic, the exhibit shows, moves under commodity rates not involved in this application and originates from a few principal shippers. Forty-three percent of REA's intrastate traffic is ratable under first or second class rates or commodity rates proposed to be cancelled and originates almost entirely from the general public on residential pickups. The remainder of the carrier's intrastate traffic moves on government bills of lading, exempt from regulation. REA has no California intrastate carload traffic.

Both of the aforementioned staff divisions recommend that the application be granted by ex parte order, in the absence of protest.

The application was listed on the Commission's Daily Calendar of April 25, 1969. No objection to the granting of the application has been received.

In the circumstances, it appears, and the Commission finds, that the proposed increases in rates are justified. A public hearing is not necessary. The Commission concludes that the application should be granted.

<u>O R D E R</u>

IT IS ORDERED that:

1. Railway Express Agency, Incorporated, is authorized to establish the increased rates and charges as proposed in Application No. 51027.

2. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date of this order on not less than ten days' notice to the Commission and to the public.

3. The authority herein granted is subject to the express condition that applicant will never urge before the 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.

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4. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 26th day of AUGUST, 1969.

William Symons Jr.
President

Commissioners