

ORIGINAL

Decision No. 82518

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southcoast
Freight Bureau for Authority to
Increase California Freight Rates
and Charges to Cover Fuel Cost
Increases Between October 1, 1973
and January 10, 1974 (X-301).

Application No. 54621
(Filed January 29, 1974)

And Related Matters.

Case No. 5330
Case No. 5432
Case No. 5433
Case No. 5436
Case No. 5437
Case No. 5438
Case No. 5439
Case No. 5440
Case No. 5441
Case No. 5603
Case No. 5604
Case No. 7857
Case No. 7858
Case No. 8808

OPINION AND ORDER

Pacific Southcoast Freight Bureau (PSFB), on behalf of the California rail carriers participating in its tariffs, seeks authority to make effective on California intrastate traffic increases in local and joint rates and charges as published in Tariff of Surcharges Account Increases in Fuel Costs X-301. The tariff provides for a general fuel cost offset surcharge of 2.1 percent, effective on interstate traffic January 31, 1974 and subject to expire with March 15, 1974 unless sooner canceled, changed, or extended.

The California intrastate rail rates published in PSFB's tariffs on file with the Commission were last generally increased pursuant to Decision No. 82016 dated October 16, 1973 in Application No. 54268 and by Decision No. 82268 dated December 18, 1973 in Application No. 54269. The former decision authorized a railroad retirement tax offset rate increase of 1.9 percent and thereafter a 2.6 percent increase effective January 1, 1974 in lieu of the 1.9 percent increase as set forth in Tariff of Increased Rates and Charges X-299. The latter decision authorized selective increases in freight rates ranging from 2 to 3 percent as published in Tariff of Increased Rates and Charges X-295-A. By Application No. 54552 filed January 4, 1974 and now pending before the Commission, the California rail carriers seek a general overall increase of 5 percent in their intrastate freight rates and charges as set forth in Tariff of Increased Rates and Charges X-303. The rates and charges proposed to be increased in this proceeding are those described in, and which have been increased by, Tariffs X-299 and X-295-A. The authority sought in the subject application is independent of, and in addition to, the 5 percent Ex Parte 303 increase in rates proposed in Application No. 54552.

In support of the sought relief applicant rail carriers submitted their systemwide balance sheets and profit and loss statements generally effective as of September 30, 1973. In addition, a verified statement prepared by the Assistant Manager, Bureau of Transportation Research, Southern Pacific Transportation Company, was attached to the application as Exhibit P thereto. A summary of affiant's statement, together with his financial and statistical computations relative to the substantive increases in fuel costs presently experienced by the California rail carriers follows:

"The purpose of this statement is to show the impact of the increase in fuel costs for railroad freight operations in California since October 1, 1973, and the justification for a proposed 2.1 percent increase...to at least partly offset the increase in such fuel costs.

"In Application No. CPUC 54552...pending before this Commission... Reliance is there placed only on increases in fuel costs up to October 1, 1973.

"Of the California intrastate freight traffic handled by the carriers listed in Exhibit A to the application herein, the preponderance is handled by Southern Pacific Transportation Company (SPT), and 95 percent is handled by SPT and the other four Class I railroads: The Atchison, Topeka and Santa Fe Railway Company (ATSF), Northwestern Pacific Railroad Company (NWP), Union Pacific (UP), and The Western Pacific Railroad Company (WP) (hereinafter referred to as the five California Class I roads). A sixth Class I railroad operating in California is Burlington Northern, but it handles only an insignificant amount of intrastate traffic.

"From October 1, 1973, to January 10, 1974, fuel prices charged Western railroads increased by 52.8 percent. During the same period, the price of fuel on SPT alone increased 58.3 percent. The increase in fuel costs since October 1, 1973, based on the Western railroads' average of 52.8 percent, is currently costing the five California Class I roads in excess of \$2.5 million annually on their California intrastate freight traffic. It would require a 2.8 percent increase in intrastate freight rates and charges to offset this increase in expense. The proposed increase of 2.1 percent would fall short by some \$633,000.

"The method of calculating the additional fuel cost and revenue offset follows: 1/

"Statement 2 attached hereto shows the intrastate results for the five Class I railroads. The adjusted expenses in column (d), lines 1-6, are carried to line 1 on Statement 1. The adjusted revenues in column (d), lines 7-12, are carried to line 7 on Statement 1.

1/ See Appendix A.

"The next step is to develop the material proportion of system freight fuel expense to total system freight expenses, taxes and rents, as shown on Statement 3. The fuel cost percent on line 12 is carried to line 2, Statement 1.

"Multiplying the amounts on lines 1 and 2, Statement 1, produces the California intrastate fuel expense for the year 1972 on line 3, Statement 1. Then the amounts on line 3 are multiplied by 1.2974, which indexes up the average fuel cost for the year 1972 to the cost level of October 1, 1973, as shown on line 4. This index is computed on lines 1-3, Statement 4.

"The fuel costs on line 4 are then indexed up to the January 10, 1974 level on line 5 by multiplying by 1.5280. This index is computed on lines 4-6, Statement 4.

"The difference between the fuel cost on line 4 (October 1, 1973) and the cost on line 5 (January 10, 1974), is the increase in intrastate fuel expense as shown on line 6, or \$2,538,403.

"Applying the requested increase of 2.1 percent to the intrastate revenues on line 7 produces the additional revenue of \$1,905,783 on line 8. As shown on line 9, the difference between lines 6 and 8 indicates a shortage of \$632,620, the amount by which the proposed rate increase fails to cover higher fuel costs which have been incurred since October 1, 1973."

Findings

1. The Interstate Commerce Commission has authorized the applicant California rail carriers to increase their rates and charges generally 2.1 percent, effective January 31, 1974, to offset fuel cost increases as set forth in Tariff of Surcharges Account Increases in Fuel Costs X-301.

2. Applicant rail carriers have demonstrated that from October 1, 1973 to January 10, 1974 they have experienced a \$2,538,403 increase in their California intrastate fuel expenses.

3. The present level of California intrastate rail freight rates and charges does not reflect the increase in fuel expenses experienced by applicant rail carriers since October 1, 1973 up to and including January 10, 1974.

4. Applicant rail carriers have shown that the sought increase is expected to generate \$1,905,783 in additional revenues to offset fuel cost increases amounting to \$2,538,403.

5. To the extent that the increases sought in Application No. 54621 do not exceed the like increases previously authorized for interstate traffic, as set forth in Tariff of Surcharges Account Increases in Fuel Costs X-301, such increases have been shown to be justified for application on California intrastate traffic.

6. The rates and charges of highway common carriers and other common carriers published and maintained on the level of the present railroad carload rates, under the "alternative application of common carrier rates" provisions set forth in the several minimum rate tariffs of the Commission, are insufficient, unreasonable, and not justified by transportation conditions to the extent such rates and charges are both lower than the increased rail carload rates and below the applicable minimum rates.

Conclusions

1. Pacific Southcoast Freight Bureau, on behalf of the California rail carriers listed in Application No. 54621, should be authorized to establish by appropriate tariff supplement the same increases on California intrastate traffic as now authorized for interstate traffic as set forth in Tariff of Surcharges Account Increases in Fuel Costs X-301.

2. Common carriers maintaining rates based on rail rates should be authorized and directed to increase those rates to the level of the increased rail rates or the level of the otherwise applicable minimum rates, whichever is lower.

3. Common carriers maintaining rates based on rail rates which have been canceled or changed should be required to adjust their rates to conform to the changed rail rates or to the minimum rates otherwise applicable.

4. Applicant and common carriers should be authorized to depart from the provisions of Section 460 of the Public Utilities Code and from the terms and rules of General Orders Nos. 80-Series and 125 to the extent necessary to establish the increased rates authorized or required herein.

IT IS ORDERED that:

1. Pacific Southcoast Freight Bureau, on behalf of the rail carriers listed in Application No. 54621, is authorized to establish by appropriate tariff supplement the same increases in California intrastate rates and charges under the same conditions as now authorized for interstate traffic as set forth in Tariff of Surcharges Account Increases in Fuel Costs X-301.

2. Tariff publications authorized to be made as a result of the foregoing authority shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public, and said authority shall expire unless exercised within sixty days after the effective date of this order. To the extent that departure from the terms and rules of General Order No. 125 is required to accomplish such publications, authority for such departure is hereby granted.

3. The authority set forth herein is granted subject to the express condition that applicant and the carriers on whose behalf it is participating herein 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. The filing of rates pursuant to the authority herein granted constitutes an acceptance by applicant and said carriers as a consent to this condition.

4. Common carriers maintaining, under outstanding authorization permitting the alternative use of rail rates, rates below the specific minimum rate levels otherwise applicable are authorized and directed to increase such rates to the level of the rail rates established pursuant to the authority granted in paragraph 1 hereof or to the level of the otherwise applicable specific minimum rates, whichever is lower. To the extent such common carriers have maintained such rates at differentials above previously existing rail rates, they are authorized to increase such rates by the amounts authorized in paragraph 1 hereof, provided, however, that such increased rates may not be lower than the rates established by the rail lines pursuant to the authority granted in paragraph 1 hereof, nor higher than the otherwise applicable minimum rates.

5. Common carriers maintaining, under outstanding authorization permitting the alternative use of rail rates, rates based on rail rates which have been changed or canceled and which are below the specific minimum rate levels otherwise applicable are hereby directed to increase such rates to applicable minimum rate levels and to abstain from publishing or maintaining in their tariff rates, charges, rules, regulations, and accessorial charges lower in volume or effect than those established in rail tariffs or the applicable minimum rates, whichever are lower.

6. Tariff publications required or authorized to be made by common carriers as a result of paragraph 4 hereof may be made effective not earlier than the fifth day after the publication by applicant made pursuant to the authority granted in paragraph 1 hereof, on not less than five days' notice to the Commission and to the public; and such tariff publications as are required shall be made effective not later than thirty days after the effective date of the tariff publications made by applicant pursuant to the authority granted in said paragraph 1.

7. Tariff publications required to be made by common carriers, as a result of paragraph 5 hereof, may be made effective not earlier than the effective date of this order on not less than five days' notice to the Commission and to the public and shall be made effective not later than thirty days after the effective date of this order.

8. In making tariff publications authorized or required by paragraphs 4 through 7, inclusive, common carriers are authorized to depart from the terms and rules of General Order No. 80-Series to the extent necessary to comply with said ordering paragraphs.

9. Applicant and common carriers, in establishing and maintaining the rates authorized hereinabove, are authorized to depart from the provisions of Section 460 of the Public Utilities Code to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorizations; such outstanding authorizations are hereby modified only to the extent necessary to comply with this order; and schedules containing the rates published under this authority shall make reference to the prior orders authorizing long- and short-haul departures and to this order.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 20th
day of FEBRUARY, 1974.

Hermon L. Stevenson
President
W. Philip Lyons
W. J. Lyons
W. J. Lyons
W. J. Lyons
Commissioners

APPENDIX A
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Statement 1

CALIFORNIA CLASS I RAILROADS
FREIGHT REVENUE REQUIRED TO OFFSET
FUEL PROPORTION OF FREIGHT OPERATING EXPENSE

| | <u>SFT</u> | <u>MTP</u> | <u>UP</u> | <u>ATSF</u> | <u>MP</u> | <u>Total</u> |
|--|--------------|-------------|-------------|--------------|-------------|---------------|
| 1. California intrastate operating expenses, rents, and taxes, year 1972 <u>1/</u> | \$49,149,788 | \$5,745,226 | \$1,744,208 | \$21,945,488 | \$4,018,141 | \$102,622,851 |
| 2. Percent fuel expense of total expense, year 1972 <u>2/</u> | 3.50% | 2.33% | 4.68% | 4.11% | 4.16% | - |
| 3. California intrastate fuel expense, year 1972 (line 1 x line 2) | \$2,420,943 | \$133,864 | \$81,629 | \$901,960 | \$167,155 | \$3,705,551 |
| 4. California intrastate fuel expense at October 1, 1973 level (line 3 x 1.2974 <u>3/</u>) | \$3,140,931 | \$173,675 | \$105,995 | \$1,170,203 | \$216,867 | \$4,807,581 |
| 5. California intrastate fuel expense at January 10, 1974 level (line 4 x 1.5280 <u>4/</u>) | \$4,799,343 | \$265,375 | \$166,823 | \$1,788,070 | \$331,373 | \$7,345,984 |
| 6. Increase in intrastate fuel expense (line 5 minus line 4) | \$1,658,412 | \$91,700 | \$55,918 | \$667,867 | \$114,506 | \$2,538,403 |
| 7. California intrastate freight revenue at January 10, 1974 level <u>5/</u> | \$40,482,945 | \$5,412,423 | \$1,274,716 | \$20,882,682 | \$2,698,789 | \$90,751,555 |
| 8. Requested increase in freight revenue (2.1% of line 7) | \$1,270,142 | \$113,661 | \$26,769 | \$438,536 | \$56,675 | \$1,905,783 |
| 9. Difference between increase in revenue and increase in fuel expense (line 8 less line 6) | \$(383,270) | \$21,961 | \$(29,149) | \$(179,331) | \$(57,831) | \$(632,620) |

1/ Statement 2, col. (d), line 6.
2/ Statement 3, line 12.

3/ Statement 4, line 3.
4/ Statement 4, line 4.
5/ Statement 2, col. (d), line 12.

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Statement 2

CALIFORNIA CLASS I RAILROADS
REVENUES AND EXPENSES OF INTRASTATE TRAFFIC

| | Year 1972 (a) | Eliminations (b) | Adjustments Revenue Increases ^{1/} (c) | Revenue & Expense Base (d) |
|--|------------------|---------------------------|--|----------------------------------|
| <u>Expenses, Taxes, and Rents:</u> | | | | |
| 1. Southern Pacific Transportation Co. | \$ 76,223,149 | \$7,053,361 ^{2/} | ^{5/} | \$ 69,169,788 |
| 2. Northwestern Pacific Railroad | 5,935,287 | 190,061 ^{2/} | ^{5/} | 5,745,226 |
| 3. Union Pacific Railroad | 1,744,208 | | ^{5/} | 1,744,208 |
| 4. Atchison, Topeka & Santa Fe | 21,945,488 | ^{3/} | ^{5/} | 21,945,488 |
| 5. Western Pacific Railroad | 4,018,141 | - | ^{5/} | 4,018,141 |
| 6. Total | \$109,866,273 | \$7,243,422 | ^{5/} | \$102,622,851 |
| <u>Freight and Switching Revenues:</u> | | | | |
| 7. Southern Pacific Transportation Co. | \$61,368,126 | \$5,354,335 ^{2/} | \$4,469,154 | \$60,482,945 |
| 8. Northwestern Pacific Railroad | 5,515,310 | 252,017 ^{2/} | 149,130 | 5,412,423 |
| 9. Union Pacific Railroad | 1,169,594 | | 105,122 | 1,274,716 |
| 10. Atchison, Topeka & Santa Fe | 22,097,520 | 2,992,213 ^{4/} | 1,777,375 | 20,882,682 |
| 11. Western Pacific Railroad | 2,450,952 | - | 247,837 | 2,698,789 |
| 12. Total | \$92,601,502 | \$8,598,565 | \$6,748,618 | \$90,751,555 |

- ^{1/} Revenue increases to Ex Parte 299 level, January 1974.
^{2/} Transit traffic.
^{3/} Transit and import/export expenses are excluded from col. (a).
^{4/} Transit and import/export revenues.
^{5/} January 1974 expense level not used as base.

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Statement 3

CALIFORNIA CLASS I RAILROADS
FREIGHT EXPENSES, TAXES, AND RENTS^{1/}

| | SPT | N&P | UP | ATSF | MP |
|---|-------------------|------------------|-------------------|-------------------|------------------|
| 1. System operating expenses (Sched. 300, line 4, col. (g)) | \$ 851,818,984 | \$ 8,871,775 | \$544,430,080 | \$643,607,591 | \$72,376,426 |
| 2. System tax accruals (Sched. 300, line 6, col. (g)) | 94,878,489 | 1,300,930 | 71,541,537 | 77,891,430 | 6,353,725 |
| 3. System net rents (Sched. 300, line 24, col. (g)) | <u>68,995,622</u> | <u>2,061,798</u> | <u>(698,905)</u> | <u>18,978,991</u> | <u>3,626,033</u> |
| 4. Total expenses, taxes, and rents (lines 1, 2 and 3) | \$1,015,693,295 | \$12,234,503 | \$637,072,762 | \$740,478,012 | \$82,356,384 |
| 5. Less federal income taxes (line 60, schedule 350) | <u>5,686,525</u> | <u>192,394</u> | <u>16,618,620</u> | <u>14,226,000</u> | <u>0</u> |
| 6. Total expenses, taxes, and rents excluding federal income taxes | \$1,010,006,770 | \$12,042,109 | \$620,454,142 | \$726,252,012 | \$82,356,384 |
| 7. Fuel, yard switching (Schedule 320, line 120, col. (e)) | \$ 1,175,586 | \$ - | \$ 1,245,710 | \$ 1,327,388 | \$ 194,003 |
| 8. Fuel, train (Schedule 320, line 126, col. (e)) | <u>36,305,705</u> | <u>297,146</u> | <u>28,455,737</u> | <u>29,442,536</u> | <u>3,518,936</u> |
| 9. Total fuel, road, and yard (lines 7 and 8) ^{2/} | \$37,481,291 | \$297,146 | \$29,701,447 | \$30,769,924 | \$3,712,939 |
| 10. Percent material of fuel cost | 94.34% | 94.34% | 97.47% | 97.04% | 92.22% |
| 11. Material proportion of fuel cost (line 9 x line 10) | \$35,359,859 | \$280,328 | \$29,009,403 | \$29,845,288 | \$3,424,072 |
| 12. Percent fuel of total expenses, taxes, and rents (line 11 ÷ line 4) | 3.50% | 2.33% | 4.68% | 4.11% | 4.16% |

^{1/} Annual Report to STUC, Year 1972.

^{2/} Excludes fuel charged to car service account 402.

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Statement 4

WESTERN DISTRICT RAILROADS

FUEL INDEXES

Index for October 1, 1973 over Year 1972:

| | |
|--|----------------------|
| 1. Index of fuel for year 1972 | 118.70 ^{1/} |
| 2. Index of fuel for October 1, 1973 | 154.00 ^{2/} |
| 3. Index for October 1, 1973 over level for year 1972 (line 2 ÷ line 1) | 129.74 |

Index for January 10, 1974 over October 1, 1973:

| | |
|---|---------------------|
| 4. Price of fuel on October 1, 1973 | 14.09 ^{3/} |
| 5. Price of fuel on January 10, 1974 | 21.53 ^{3/} |
| 6. Index for January 10, 1974 over level for October 1, 1973 (line 5 ÷ line 4) | 152.80 |

- 1/ AAR Index Series Q-MFW-81 issued November 6, 1973, Part 1, Annual Indexes.
- 2/ AAR Index Series Q-MFW-81 issued November 6, 1973, Part 2, Quarterly Indexes.
- 3/ Verified Statement of W. F. Betts dated January 19, 1974, for ICC Special Permission 74-1825 (Ex Parte 301), Table 1, lines 1 and 2, column 4.