

Decision No. 19591**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 MOTOR SERVICE EXPRESS, a Corporation, } APPLICATION NO. 14002
 for permission to increase its rates. }

H. J. Bischoff, for Applicant.

Rex S. Sawyer, for Associated
 Jobbers, Protestants.

BY THE COMMISSION:

O P I N I O N

Applicant herein seeks an order authorizing an increase of rates applicable to the business moving between Los Angeles and its Orange County division and its Coachella Valley division, which rates are now established by Tariff No. 1 effective May 24, 1926. Applicant also asks authority to establish Monroe's classification in lieu of the present rates applicable to its Orange County division. Its other divisions are its Riverside and Beach divisions, whose rates are not involved in this proceeding.

Public hearings herein were conducted by Examiner Williams at Los Angeles.

According to the testimony of applicant, verified by exhibits filed, the businesses now conducted by applicant over its Orange County division and Coachella Valley division

have sustained losses. The Orange County division serves only Fullerton, Anaheim and La Habra. The Coachella Valley division serves all points east and south of Riverside, to and including Mecca, along the State Highway.

In addition to the operating losses of these divisions, applicant is confronted with an additional burden in the payment of 5% tax on its gross income to the State of California, due to the passage of a constitutional amendment imposing such tax.

The business of Motor Service Express (formerly Service Motor Express) has been conducted as a partnership by Fletcher & Tremble for many years, but was transferred to the corporation in February, 1926, by authority of this Commission. At that time, the corporation assumed the equipment and business and continued the rates in force. Experience of practically twenty months' operation resulted in the present application, because applicant urges that the business cannot be conducted with any chance of profit unless the rates are altered. Applicant presented many exhibits at the hearing, and its books and exhibits were exhaustively examined by Mr. D. W. Davis, an accountant for the Railroad Commission. While there are minor matters of difference between the figures presented by Mr. Davis and applicant, the set-up as a whole is not contradictory in a substantial way.

According to the figures submitted by Mr. Davis, which applicant stipulated might be regarded as accurate, the gross revenue of applicant for its business in 1926 (including Riverside and San Bernardino and other points not in either of the divisions affected) was \$175,977.39, while the total operating expenses amounted to \$181,765.52 with the additional de-

duction for interest paid amounting to \$1275.90, leaving a net loss on the business for the year of \$7,064.03. For the first nine months of 1927, a similar comparison shows a gross revenue of \$149,614.58 and a total operating expense of \$162,913.72, with additional interest deduction of \$1507.06 and showing a net loss of \$14,806.20. The loss is calculated in this exhibit after depreciation and taxes are set up.

For the same periods, the Coacholla Valley division shows a revenue of \$45,042.59. The increase in rates proposed for the service is approximately .1398 of the whole, and if applied on the business of 1926, would provide \$6,296.95 additional revenue. For the nine months of 1927, the revenue was \$39,426.19, and the increase, if applied on the basis of .1398, would be \$5,502.78.

On the Orange County division the revenue for 1926 was \$4,518.14. The proposed increase horizontally is approximately .42 of this amount and would bring additional revenue, if applied to 1926 business, of \$1897.62. For the nine months of 1927, the revenue was \$4,592.80, and at the same rate of increase. .42, would have brought \$1928.98 additional revenue.

Applying the increase over the 1926 business would have brought the total revenue of the entire operation to \$184,171.89, and the total expenses \$183,041.42, leaving a net profit of \$1130.47. Following the same method, for the nine months of 1927, the total revenue would have been \$157,046.14 as against total expenses of \$164,420.78, showing a net loss for the period of \$7,374.64.

It is obvious from the above figures that the rates charged upon the two divisions are completely out of line with the structure for the remainder of the system, and imposes upon the whole operation general losses. The figures presented by applicant show that previous to the acquisition of the business by the corporation, losses were sustained for several years, and that a great deal of difficulty was experienced in conducting the operation at all by reason of inability to meet payrolls and maintenance. It will be seen that the application of the proposed rates will not, on the basis of present business, put the applicant in a position to make a profit upon its entire business; that there would still be a loss of approximately \$850 per month. Hence the provision for additional rates providing additional revenue is not calculated by applicant to bring the operation to even a balance between cost and revenue, but will, if continued, show further losses. Applicant urges, however, its readiness to assume the new rates, and, by exercising economies and better methods and acquiring a larger volume of tonnage and operating better and different equipment capable of speeding up the service, to earn the profit that it expects eventually. One of the economies alluded to is the reduction of overhead of applicant corporation approximately 50% by reason of the fact that its business is housed with the business of the Coast Truck Line, owned by the same interests, and that it will be charged with not to exceed 50% of the expenses it has heretofore been required to pay for terminal facilities, maintenance of equipment and the like.

The new rates proposed by applicant are set out in Exhibits "A" and "B" attached to the application. Exhibit "B" was amended to eliminate only rates for loads in excess of

20,000 pounds. The rates for the Orange County division, under the Monroe Classification, appear to be not in excess of truck rates for similar service or for competing service. The rates for the Coachella Valley division likewise appear reasonable as compared with rail and other comparable rates for similar distances and movements. Comparison of these rates in this proceeding is not necessary, as the rates sought are not expected to produce a return upon the investment at this time, and no competitor is protesting.

Applicant's book accounts show an investment of approximately \$142,000 in utility property, of which \$93,656.75 is in motor equipment, \$40,506.46 in land and buildings, \$6779.67 in furniture and fixtures, and \$1261.69 in miscellaneous equipment. Applicant estimated the value of its motor equipment at \$99,203.92, but it appears from the testimony that some of the equipment carried in this account is obsolete and unfit to rehabilitate, and for that class of property \$5547.17 has been eliminated. No compensatory return on invested capital is sought in this proceeding.

The application was protested by the Associated Jobbers of Los Angeles, an association of shippers, through its secretary and rate expert, Mr. Rex S. Sawyer. This protestant, however, was not against the proposed increase in rates, but against the former practice of applicant of delaying shipments and failure to remit for C.O.D. collections. The protest was withdrawn after applicant gave assurance that the service and remittances would be prompt and the business conducted on a much better basis.

In view of the fact that the additional revenue sought is not applied for with the hope of paying a return upon the investment, but is intended rather to equalize the rates and relieve applicant of the burden of undue losses on its operation on two divisions, we believe the application for increased rates should be granted.

O R D E R

This application of Motor Service Express, Incorporated, having been duly heard and submitted, full investigation of the matters and things involved having been made, and basing its order on the findings and conclusions contained in the preceding opinion:

IT IS HEREBY ORDERED, that applicant, Motor Service Express, Inc., a corporation, be, and it is hereby, authorized within sixty (60) days from date hereof, to file the freight rates, rules, regulations and classifications as set forth in Exhibits "A" and "B" attached to the application, as amended; provided, however, that only the last two items of Item No. 1 of Section 13, page 8 of C.R.C. No. 1, effective May 24, 1926, be eliminated, the remainder of said section of commodity rates to remain in force.

IT IS HEREBY FURTHER ORDERED that the tariffs issued in compliance with this order shall have the Commission's approval before becoming effective.

For all other purposes, the effective date of this order shall be twenty (20) days from the date hereof.

Dated At San Francisco, California, this 13th day of April, 1928.

Leon Whitall
C. S. [unclear]

Thos. S. [unclear]

W. J. [unclear]

Commissioners