

ORIGINAL

Decision No. 36413

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Establishment of rates, rules, classifications, and regulations for the transportation of property, exclusive of property transported in dump trucks, for compensation or hire, over the public highways of the City and County of San Francisco.

Case No. 4084

BY THE COMMISSION:

Additional Appearances

Reginald L. Vaughan and J. F. Vizzard, for Draymen's Association of San Francisco.
Spurgeon Avakian, for James F. Byrnes, Director of the Office of Economic Stabilization, and Leon Henderson, Price Administrator of the Office of Price Administration.
Milton O'Connell, for Johnson & Johnson and the Allied Drug Distributors' Association.
R. C. Fels, for Retail Furniture Association of California, Inc. and The Western Traffic Conference.
Thomas R. Speakman, for Owens-Illinois Pacific Coast Company.

SUPPLEMENTAL OPINION

By Decision No. 28632 (39 C.R.C. 636), as amended, in this proceeding, minimum rates have been established for the transportation of property by for-hire carriers within the City and County of San Francisco. By petition, Draymen's Association of San Francisco, representing 62 of these carriers, asks that the prescribed minimum rates be increased by not less than 10

per cent.

Public hearings were had before Examiner Mulgrew.

The rates initially prescribed became effective April 5, 1936. A general increase, effective July 15, 1937, raised the rate level 10 per cent. Other changes, involving both increases and decreases have been limited to rates for particular operations.

Under an agreement effective August 1, 1942, teamsters' wages were increased \$1.00 per day. Petitioner claims that the rates now in effect do not produce revenues sufficient to defray operating expenses. Establishment of the further increase in the rates here proposed is said to be essential to the continuance of the "vital and necessary" common carrier services rendered by the draymen.

According to the record, approximately 95 per cent of the vehicles with which San Francisco for-hire drayage service is performed are operated by the carriers petitioner represents. (1)

(1) About 1,050 vehicles are said to be used in this service. Assertedly, not more than 50 of these vehicles are operated by carriers that are not members of the Draymen's Association. These estimates do not include the operations of eight carriers specializing in the transportation of carstrips, lath, logs, lumber (including ceiling, flooring, finish mouldings, surface stock, trim and other milled lumber), piling, poles, slabs, shingles, spars and wallboard. For their type of operations, these eight carriers have urged that rates be prescribed which differ materially from those heretofore established both as to the manner in which they are stated and in the volume of the charges produced. Their proposals also involve rates for East Bay drayage and evidence relative thereto was also received in Cases No. 4108 and 4109 in which the East Bay cartage rates were established. They will be disposed of in a separate decision.

It is estimated that 11⁽²⁾ of these carriers handle at least 75 per cent of the drayage business in San Francisco. A consolidated profit and loss statement, Exhibit P-3, for the months of June and July, 1942, prepared by a public accountant from reports submitted to him by the 11 carriers show that they had operating revenues of \$241,992.25 in June and operating revenues of \$249,272.90 in July. Said Exhibit P-3 shows "net operating profits" of \$13,897.27 for June and \$3,167.86 for July. The operating expenses for the months of June and July, 1942 are reported as follows:

Item	June	July
Wages - Drivers and Helpers	\$118,054.18	\$133,370.80
Wages and Salaries - Others	24,635.45	26,034.80
Repairs - Equipment	10,507.14	8,930.68
Tires & Tubes	2,428.38	2,621.69
Taxes and Licenses	9,038.76	9,511.38
Insurance	5,578.41	6,080.19
Depreciation	14,559.06	14,606.29
Executive Salaries	9,418.53	9,750.74
Other Operating Expenses	33,875.07	35,198.47
Total Operating Expenses	\$228,094.98	\$246,105.04

The record does not contain any information showing what items of expense are included under "other operating expenses." To illustrate the effect of the new wage scale, the public accountant increased the wages for drivers and helpers by 12½ per cent. He also increased the "wages and salaries - others" by 10 per cent. He also increased taxes and insurance because of

(2) Walkup Drayage and Warehouse Company, Carley & Hamilton, Inc., Overland Freight Transfer Company, Robertson Drayage Company, Englander Drayage and Warehouse Company, J. Schussler and Company, J. A. Clark Draying Company, Ltd., Shroeder Drayage Company, Emmons Draying and Safe Moving Co., S. Brizzolara Draying Company, C. A. Worth Draying Company.

the increased wages and salaries. After said increases, Exhibit P-3 shows a loss of \$4,642.42 for June and a loss of \$17,586.32 for July. He increases this loss further by increasing the depreciation charges and by including a return on the investment.

The public accountant also presented a statement, Exhibit P-2, showing for the 11 carriers an aggregate investment of \$1,024,450.31. In doing so he excluded the items of good will, investments in other companies and deferred charges to operation. By various adjustments he raises this investment to \$1,615,310.40 on which he computes a return at the rate of 8 per cent per annum. The \$1,615,310.40 consists of the following items:

Adjusted depreciated book cost of revenue equipment	\$ 928,293.13
Depreciated cost of other equipment - land and buildings	154,948.87
Working capital	<u>532,068.40</u>
Total	<u>\$1,615,310.40</u>

He disregards the accrued depreciation recorded on the books of the several carriers. He assumes that their equipment has a life of 6 years and a net salvage value of 10 per cent of the cost of the equipment. He further assumes an accrued depreciation equal to 45 per cent of the cost of the equipment, less salvage value. His depreciated book cost of revenue equipment is \$421,896.63 in excess of the sum the carriers reported to him. His allowance for working capital is an amount equal to his final adjusted operating expenses for June and July which include depreciation and operating taxes and licenses.

It is estimated that 60 per cent of the operating revenues shown in Exhibit P-3 are derived from transportation

service for which the Commission has published minimum rates. The balance of the operating revenues are from pick-up and delivery service performed for line-haul carriers and other services for which minimum rates have not been published.

A Consulting Engineer, retained by petitioner, presented Exhibit P-4 in which he shows the costs of operating certain truck equipment now as compared with the costs in 1935. He endeavored to bring down to date Exhibit 1, filed in this case on December 3, 1935 by a Commission witness. In doing so, however, he gave no consideration to the load factor or to changes since 1935 that have decreased the cost of operation. This witness in Exhibit P-5 shows that for the month of September, 1942, Walkup Drayage and Warehouse Company sustained an operating loss of \$2,259. In Exhibit P-6 he shows that for August, 1942, Overland Freight Transfer Co. had an operating loss of \$4,975, while in Exhibit P-7 he shows for Carley & Hamilton, Inc., for August, 1942, an operating loss of \$832. To these operating losses he adds an amount equal to an 8 per cent return for one month on the depreciated cost of physical properties and working capital. The over-all loss for the three carriers is \$3,188, \$7,388, and \$1,003, respectively. The revenues appearing in said exhibits were taken from the books of the carriers. The testimony does not show whether an analysis was made of the same. The witness did check the wages of drivers and helpers for one week. The direct truck and garage expenses, depreciation and the indirect expenses were apportioned to the city drayage service for which an increase in rates is asked in the same percentages that

drivers' hours bore to the total drivers' hours worked on the entire operation. The return was calculated upon a base derived by apportioning the entire plant to the city drayage operation on the same basis as the drivers' time for such operation bore to the total. For the equipment the witness assumed a 6-year life, a 10 per cent salvage value and a 45 per cent accrued depreciation. For working capital he allowed two months' operating expenses, less depreciation.

An economist in the Office of Price Administration's research division made a general statement on the economic basis of the national price control program and introduced supporting exhibits. He outlined the effects of inflation on the national economy during World War I, and discussed the inflationary tendencies evident today. Because of the freezing of prices by the "General Maximum Price Regulation," he pointed out, increases in transportation charges must be absorbed by those obligated to pay those charges. The economist recommended that the peace-time concept of a fair return "be modified at a time when economy is being stripped to the bone in order to put forth the maximum war effort." A sound test for proposed increases of all sorts in war time, he claimed, is whether or not the increase is necessary for a maximum war effort. He urged that the Commission give careful consideration to the national war-time price-control program and the effect of the proposed increase thereon.

In considering the request of petitioner for an increase in minimum rates, we cannot ignore the Emergency Price Control Act of 1942 (of January 30, 1942) as amended by the

Stabilization Act of October 2, 1942. We feel that those statutes place upon us an added responsibility when passing upon a request for rate increases. A record that might have justified an increase prior to their enactment may not warrant us to increase rates now.

In this particular proceeding we have a record that is replete with testimony showing increased costs, but, except for Exhibits P-3, P-5, P-6, and P-7 it is void in showing the net results of operation. Exhibit P-3, as said, shows consolidated net results in the operation of all carriers for two months. Its evidentiary value, however, is questionable. To quote from the transcript:

"MR. AVAKIAN: I take it that all of the figures in the book balances column were taken from actual records of the carriers?

"MR. KASCH: As presented to me by their accountants, yes, sir.

"Q. Did those revenues include anything besides city drayage in the City of San Francisco? A. They did not.

"Q. They included no warehouse revenue? A. No, sir.

"Q. No pickup and delivery revenues? A. Pickup and delivery, yes, sir, that would be in San Francisco.

"Q. Did they include any pickup and delivery for rail carriers? A. Yes, sir.

"MR. VAUGHAN: You are trying to bring out whether or not it is tariff or not tariff?

"MR. AVAKIAN: I was going to come to that next.

"Q. Was there any attempt made to confine this revenue to revenue derived from city carriers' tariff No. 1 rates?

"A. No.

"Q. Did you make any study to determine the relationship between the revenue earned from city carriers' tariff No. 1 rates as compared with the total of revenue and the total of time and equipment spent on city carrier tariff No. 1 transportation as compared with total transportation?

"A. I did not.

"Q. So that then are you -- you are, then, unable to say that the rates produced by city carriers' tariff No. 1 are inadequate with respect to the transportation covered by city carriers' tariff No. 1? You are not prepared to segregate that, are you? A. No, sir.

"Q. Is it quite possible, Mr. Kasch, that the projected loss shown on your Exhibit P-3 may be due entirely to inadequate revenue derived by the carriers from transportation other than that subject to city carriers' tariff No. 1?

"A. I would not venture to pass an opinion on that.

"Q. It is possible, is it? A. I would not say it was.

"Q. Would you say that it is not possible? A. I would not say that either.

"Q. Did you, yourself, make an examination of the actual records of the eleven companies involved, Mr. Kasch?

"A. I did not.

"Q. In what form was the information which you have used in preparing Exhibit P-3 submitted to you? A. On working papers prepared in most cases by the carriers' accountants and in various -- in most instances who were C.P.A.'s.

"MR. VAUGHAN: Available here, are they not? A. Yes, they are here.⁽³⁾

"MR. AVAKIAN: Do you know upon what basis the allocations of wages were made to San Francisco carriers' revenue as distinguished from other revenue? A. No, I do not.

"Q. Do you know upon what basis the allocation was made between San Francisco city carrier revenue and other revenue with respect to the other expense items shown on Exhibit P-3?

"A. I do not."

Turning to Exhibits P-5, P-6, and P-7 we have one month's operating results with revenues as recorded on the books of three carriers and expenses and investment allocated on a study of wages of drivers and helpers for one week. This is a rather limited showing both as to time and number of carriers considered.

Operating losses do not necessarily follow increases in wages or increases in the cost of materials and supplies. In-

⁽³⁾Not in evidence in this proceeding.

stances have come to our attention where increase in business and economies in operation have more than offset increases in particular costs. Perhaps the carriers before us are in need of an increase in the minimum rates, but the record does not establish that fact to our satisfaction.

O R D E R

The Commission having considered the testimony submitted at the hearing had on December 3 and December 4 in the above entitled matter, and it being of the opinion that such testimony does not warrant the Commission to grant the petition of the Draymen's Association of San Francisco for an increase of not less than a 10 per cent in minimum rates heretofore established for transportation within the City and County of San Francisco, therefore

IT IS HEREBY ORDERED that said petition of said Draymen's Association of San Francisco be, and the same is hereby, denied without prejudice.

Dated at San Francisco, California, this 1st day of

June, 1943.

Francis J. Havenner

A. J. Baker

Richard Lachner
Arnold Clark

Commissioners.