

Decision No. 38184

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of HIGHWAY TRANSPORT, INC., a)	Application No. 26858
corporation, for authority to)	
increase rates.)	

ORIGINAL

BY THE COMMISSION:

Appearances

Berol and Handler, by Edward M. Berol, for applicant,
 Eugene A. Reed, for Oakland Chamber of Commerce,
 Walter A. Rohde, for San Francisco Chamber of Commerce.

O P I N I O N

Highway Transport, Inc. is a highway common carrier of property between San Francisco on the one hand and Salinas, Soledad, Monterey and intermediate points on the other. It seeks authority to increase its local rates and charges by 10 per cent for a one-year period.¹ Authority to increase its joint rates is² not sought.

A public hearing was had before Examiner Howard G. Freas at San Francisco on August 10, 1945.

During the war period applicant's operating expenses increased substantially. So also did its revenues and equipment load and use factors. The increases in expenses, however, exceeded those in revenue and applicant's operating results have grown steadily worse. In January, 1945, applicant made a profit of \$159. Since then each month was carried on at a loss. After excluding interest as an allowable operating expense the results for the years 1942 to 1944, inclusive, and for the first six months of 1945, as portrayed by ex-

¹ In the case of fresh fruit and vegetables, authority is sought to apply the increase to the rates prescribed by Decision No. 37816 of April 24, 1945, in Case No. 4293, but not yet published by applicant. Applicant's fruit and vegetable traffic amounts to less than 1/20 of 1 per cent of the total.

² Joint rates are maintained with only one carrier. The revenue accruing to applicant thereunder is less than \$50.00 per month.

Records of record, are as follows:

Year	Month	Revenue	Expenses	Net Profit* or Loss	Operating Ratio
1942		423,741	404,098	19,643	95.4
1943		570,977	560,132	10,845	98.1
1944		631,083	628,647	2,436	99.6
1945	Jan.	53,657	53,498	159	99.7
	Feb.	48,296	50,938	(2,642)	105.5
	Mar.	56,813	58,798	(1,985)	103.5
	Apr.	53,272	61,369	(8,097)	115.2
	May	58,615	61,650	(3,035)	105.2
	June	59,404	62,591	(3,187)	105.4
Six Months Total		330,057	348,844	(18,787)	105.7

*After Taxes

() Denotes Loss

The rise in operating expenses was attributed principally to higher labor costs, increased maintenance expense, higher prices and lowered quality of tires and tubes and increased cost of cargo insurance and loss and damage payments. The higher labor costs were attributed to substantial increases in overtime work, to the inefficiency and inexperience of the help obtainable to replace employees who have entered the Armed Forces and war industries, and to recent wage increases paid drivers and helpers.

Applicant expects that the rate increase sought will result in a loss of traffic to competing carriers of something less than 10 per cent. Had the increase been in effect during the first half of 1945, it is estimated that applicant would have enjoyed net revenue of \$10,947 if no traffic loss were incurred and \$4,494 if 10 per cent of its traffic were diverted.³ In preparing the estimates the interstate revenue, which is said to approximate 5 per cent of the total,

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The revenue estimates reflect our adjustments to exclude interest as an operating expense.

was also subjected to a 10 per cent revenue increase on the theory that, if authorized intrastate, similar increases would be effected interstate. In computing the estimate of net revenue based upon a 10 per cent traffic loss, expenses were adjusted to give effect to the probable decrease therein by virtue of the reduction in tonnage. For the same six month period the net revenue estimates when translated into rate of return and operating ratio are as follows:

10 per cent Revenue Increase with:	Net Revenue	Rate of Return		Operating Ratio
		Unadjusted	Adjusted	
(1) No traffic loss	\$10,947	6.6	7.8	97.0
(2) 10% traffic loss	4,494	2.7	3.2	98.7

The unadjusted rates of return are predicated upon a rate base of \$165,322, submitted by the carrier. Of this amount, \$73,074 represents the depreciated book cost of tangible operating property, \$13,716 the cost of acquisition of franchises and cash surrender value of insurance policies on officers of the carrier, \$10,824 the amount of prepayments and deferred charges, and \$67,708 the working capital allowance.⁴ The adjusted rates of return reflect the exclusion from the rate base of the second and third items amounting to \$24,540.⁵ Such items are not properly includable in the rate base.

Applicant's President and General Manager testified that he knew of no operating measure, short of drastic curtailment of service, which would permit continued operation under the existing rates and that either curtailment or temporary suspension of service would have to be resorted to in event permission temporarily to assess increased rates is not granted. He stated that Highway Transport, Inc, handles more than the combined tonnage of the other carriers serving the same territory and expressed the opinion that should either of the

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The working capital allowance is based upon one month's operating expense, less depreciation.

⁵ The amount of money paid to the State for the acquisition of franchises was not disclosed, but was said to be negligible.

alternatives to continued full-scale operation become necessary, the competing carriers would be unable to absorb the additional traffic. It was his belief that substantial relief, within less than the one-year period for which increased rates are sought, could not be expected by reason of early termination of the war because of the length of time required to effect demobilization of the Armed Forces and return to peace-time operation.

No one opposed the granting of this application. The record shows that applicant gave the Office of Price Administration the required 30 days' notice and consented to that agency's intervention in this proceeding.

It is clear that since January, 1945, applicant's operations have been conducted at an out-of-pocket loss. This loss was incurred under wartime operating conditions. Applicant estimates that one year will elapse before our economy is restored to a peacetime basis, and that at least during the interim the transportation conditions upon which its showing is based will continue to exist to such a degree that its operating needs will not be materially changed thereby. The record is persuasive that applicant's need for relief does not cease by virtue of the termination of the war. Relief is imperative if an essential service is to be preserved.

Under the proposal, applicant's rates will be higher than those of its competitors. For this reason we have some doubt that the operating results anticipated will be realized. However, applicant has justified the rate increase sought, and the propriety of establishing higher rates in a competitive field where such higher rates have been justified is a matter of managerial discretion. The increase will be granted. In view of the rapidly changing conditions the authorization will be limited to a six-month period.

Upon consideration of all the facts of record, we are of the

opinion and find that the increases involved in this application are fully justified for the temporary period hereinbefore stated.

O R D E R

A public hearing having been had in the above entitled application and based upon the evidence received at the hearing and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Highway Transport, Inc. be and it is hereby authorized to establish, on not less than two (2) day's notice to the Commission and to the public, an increase of ten (10) per cent in its tariff local rates and charges, with the exception that said increase shall be applied to rates and charges it is required to publish on fresh fruits and vegetables and used empty carriers by virtue of Decision No. 37816 of April 24, 1945, in Case No. 4293.

IT IS HEREBY FURTHER ORDERED that the increases in rates and charges herein authorized shall be published and filed to expire one hundred and eighty (180) days after the date they become effective, unless sooner changed, cancelled or extended by order of the Commission.

IT IS HEREBY FURTHER ORDERED that in computing the increased rates and charges herein authorized the following will govern in the disposition of fractions:

Where present rates or charges are 10 cents or less:

Fractions of less than $\frac{1}{4}$ or .25 of a cent omit.
Fractions of $\frac{1}{4}$ or .25 of a cent or greater but less than $\frac{3}{4}$ or .75 of a cent will be stated at $\frac{1}{2}$ or .50 of a cent.
Fractions of $\frac{3}{4}$ or .75 of a cent or greater, increase to next whole figure.

Where present rates or charges are over 10 cents:

Fractions of less than $\frac{1}{2}$ or .50 of a cent omit.
Fractions of $\frac{1}{2}$ or .50 of a cent or greater, increase to next whole figure.

IT IS HEREBY FURTHER ORDERED that Highway Transport, Inc. be and it is hereby authorized to depart from the provisions of General Order No. 80 to the extent necessary to carry out the effect of the order herein.

The authority herein granted shall be void unless exercised within ninety (90) days from the effective date hereof.

This order shall become effective upon the date hereof.

Dated at San Francisco, California, this 28th day of August, 1945.

Richard C. Anderson
Justice J. C. Quinn
Richard K. Laska

James D. Lohr
 Commissioners