

Decision No. 38600

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Valley Express Co., a corporation,)
and Valley Motor Lines, Inc., a)
corporation, for authority to in-)
crease their rates of charges.)

Application No. 25784

ORIGINAL

BY THE COMMISSION:

Appearances

Berol and Handler by Marvin Handler, for applicants.
W. G. Stone, for Sacramento Chamber of Commerce.
C. O. Burgin, for Office of Price Administration.
John L. Amos, Jr., and John E. Hennessy, for The
Western Pacific Railroad Company, Sacramento
Northern Railway and Tidewater Southern
Railway Company.
A. V. Amos, for Union Oil Company.
Walter Rohde, for San Francisco Chamber of Commerce.

FIRST SUPPLEMENTAL OPINION

Decision No. 37055 of May 17, 1944, in this proceeding, authorized Valley Express Co., an express corporation, and Valley Motor Lines, Inc., a highway common carrier, to increase their rates by 4 per cent. By supplemental application, they seek authority to establish, on a temporary basis, rates 10 per cent higher than those in effect prior to the 4 per cent increase.

A public hearing was had at San Francisco before Examiner Mulgrew on December 21, 1945.

Applicants have substantially identical ownership and management. Valley Motor Lines, Inc. is the principal underlying carrier for Valley Express Co. Under the circumstances, a consolidated showing has been made in support of the increases proposed in this proceeding.

Applicants' president and general manager testified that for some time there had been a continuing upward trend in operating

expenses occasioned chiefly by increases in labor, tire, maintenance, and claim costs. He also testified that the 4 per cent rate increase which became effective June 12, 1944, had been more than offset by higher operating costs. Operating ratios for the years 1939 through 1944 and for the first 10 months of 1945 were submitted to depict this situation. They follow:

<u>Year</u>	<u>Operating Ratio</u>	<u>Year</u>	<u>Operating Ratio</u>
1939	94.6	1943	100.8
1940	94.9	1944	99.8
1941	94.6	10 months	
1942	97.7	of 1945	101.5

The witness expressed the belief that the further increase of approximately 6 per cent now proposed would not result in a loss of traffic to other carriers. Applicants' traffic volume, he said, had not been adversely affected by the 4 per cent increase. He explained that from and to San Joaquin Valley points the principal competitive service was that furnished by the rail lines; that this service had been impaired by the heavy volume of rail freight and passenger traffic occasioned by the war; and that he anticipated no loss of business to the competitive service, despite its lower rate level, until it is restored to its prewar standards. He also pointed out that The River Lines and Highway Transport, Inc., carriers with which applicants compete in the Sacramento and San Joaquin areas, are already observing rates of the volume here sought. Since applicants' rates were last considered by the Commission, the witness testified, neither applicant has declared any dividend or increased

1. Applicants evidently assume that this competitive situation will prevail for some time. That this will prove to be the case is open to doubt. However, the course of action to be taken under circumstances such as those here confronting applicants is primarily a question for management.

executive salaries. The management, he also testified, has continued to make economies and to increase efficiency wherever it is possible to do so.

According to applicants' witness, less than 10 per cent of their total business is interstate traffic. The same increase as that here proposed on intrastate business is proposed to be established for the interstate traffic. Statements submitted by applicants show that the rate increase now sought applied to the traffic handled during the first 10 months of 1945 would have produced a profit of \$43,935 instead of a loss of \$28,065. The operating results under the increased rates thus indicated are equivalent to an operating ratio of 96.01 and a rate of return of 5.87 per cent on a rate base of \$748,106.²

These operating results, applicants' witness testified, did not reflect the higher wage rates called for in various agreements which had recently been negotiated or were in the process of being negotiated. He estimated that in the near future applicants' labor costs would be increased 12½ per cent as a result of upward wage adjustments. Labor costs, he stated, now amount to more than 60 per cent of applicants' revenues.³

No one opposed the granting of the application. Applicants gave due notice to the Office of Price Administration and consented

2.

Of the rate base figure \$554,180 represents the depreciated book cost of tangible operating property, \$177,118 the allowance for working capital (one month's operating expense less depreciation), and \$16,808 the cost of acquiring franchises. While it has not been shown that the \$16,808 consists solely of amounts actually paid to the State or its political subdivisions as consideration for the granting of operative rights, any necessary adjustment of that figure would not materially affect the estimated rate of return.

3.

The following statement of the ratio of labor expense to revenue shows this relationship as it has existed for approximately 6 years:

Year	Ratio	Year	Ratio
1940	48.79	1943	62.09
1941	52.19	1944	60.41
1942	58.17	10 months of 1945	60.98

to its intervention in the matter.

The record shows that applicants' operations have been conducted at a loss and that the proposed rate increase will not produce excessive earnings. Granting of the supplemental application has been justified. In the face of our general investigation into rates of all for-hire carriers, Case No. 4808, and in view of the possibility that the conditions under which applicants' operations are conducted may change, this authority will be limited to a six-month period.

O R D E R.

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

IT IS HEREBY ORDERED that Valley Motor Lines, Inc. and Valley Express Co. be and they are and each of them is hereby authorized to establish on not less than five (5) days' notice to the Commission and the public an increase of ten (10) per cent in their local rates and charges in effect prior to the four (4) per cent increase authorized by Decision No. 37055 in this proceeding.

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 from the date they become effective unless sooner changed, canceled or extended by order of the Commission.

IT IS HEREBY FURTHER ORDERED that in computing the increased rates and charges herein authorized applicants shall observe the provisions of Appendix "A" to Decision No. 37055 in this proceeding headed "Computation of Increases."

IT IS HEREBY FURTHER ORDERED that the provisions of Section 24(a) of the Public Utilities Act and of Tariff Circular No. 2 and General Order No. 80 may be departed from to the extent necessary to carry the provisions of the order herein into effect.

The authority herein granted shall be void unless exercised within sixty (60) days from the effective date hereof.

This order shall become effective ten (10) days from the date hereof.

Dated at San Francisco, California, this 15th day of January, 1946.

David Ruden
Justin J. Cooney
Franklin
W. H. St. Anne
Harold Huls
Commissioners