

ORIGINAL

Decision No. 39482

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of MELVIN A. PIXLEY doing business )  
as Furniture Freight Forwarders for )  
an order authorizing applicant to )  
increase rates and to alter rules )  
and regulations so as to effect in- )  
creases in rates on uncrated furniture )  
moving from, to and between points in )  
California. )

Application No. 27604

Appearances

Robert S. Crossland and F. W. Turcotte, for applicant.

Benjamin Chapman, for the Office of Price Administration,  
interested party.

F. F. Morgan, for Furniture Manufacturers Association of  
Los Angeles, Inc., protestant.

Omar E. Pullen, for Retail Furniture Association of California,  
Inc., John Breuner Co., and Western Traffic  
Conference, Central Division, protestants.

O P I N I O N

Melvin A. Pixley, operating under the name of Furniture  
Freight Forwarders, is engaged in the business of transporting new  
furniture, not crated nor wrapped, within California as an express  
corporation, as that term is defined in the Public Utilities Act.  
By this application he seeks authority to increase his rates and to  
make other changes which would result in increased charges.<sup>1</sup>

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The other changes referred to are cancellation of rates to San  
Diego group points and the substitution therefor of rates appli-  
cable to a higher-rated group; and the addition of a pickup charge  
to apply when pickup service is rendered in connection with ship-  
ments transported from San Francisco, Oakland or Berkeley to group  
points located generally between such points and Sacramento or  
Stockton.

Public hearing was had before Examiner Bryant at Los Angeles on August 14, 15 and 16, 1946, and the matter is ready for decision.

In addition to his express operations, applicant operates as a highway common carrier under the name of Furniture Fast Freight.<sup>2</sup> He also holds permits issued by the Commission to operate as a highway contract carrier, as a radial highway common carrier and as a city carrier; and is engaged in transporting some shipments in interstate commerce.

Although the increases which applicant seeks to effect are those in his express rates, the justification he submitted was based upon the consolidated operating figures of his combined transportation operations. Applicant explained that almost all of the transportation performed is that by Freight for Forwarders; that because of increased costs Freight was incurring substantial losses; that Freight had no way of obtaining additional revenues except from Forwarders; and that unless Forwarders were permitted to earn more revenues to recompense Freight sufficiently to cover operating costs, both common carrier operations would have to be curtailed. Under usual circumstances carriers seeking authority for rate increases are expected to justify their applications on the basis of their individual records rather than on the basis of consolidated showings made with carriers not parties to the application. In the instant proceeding, however, applicant is an individual acting in a dual capacity. His operations as Freight are restricted by this Commission to the carriage of furniture for Forwarders.<sup>3</sup>

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<sup>2</sup> For convenience Furniture Freight Forwarders and Furniture Fast Freight will hereinafter be referred to as Forwarders and Freight, respectively.

<sup>3</sup> Decision No. 36824, 45 C.R.C. 205.

The relationship between the two operations in respect to both physical operations and revenues and expenses appears to be such as to justify and require consideration in this proceeding of Pixley's operating experiences as a whole.<sup>4</sup>

Consolidated operating statements, which applicant explained and introduced as exhibits, indicate that he has been subjected to substantial increases in operating expenses since the early part of 1946. The higher expenses were attributed principally to increases in wages of drivers, mechanics, loaders and unloaders, and certain other classes of labor. Other items of expense shown in the exhibits as having advanced include cost of fuel, cost of insurance and cost of office supplies. It was stated also that changes in trade practices have exerted an adverse effect upon applicant's operating costs. Furniture is now purchased in smaller lots than it was formerly, with the result that shipments are smaller, and more stops and more time are required to deliver a full truck load. Additional cost increases, which applicant asserted would have to be met within the near future, were higher terminal rents because of loss of lease of present Los Angeles terminal, and higher depreciation expense as present fully depreciated and nearly worn-out vehicles are replaced by new equipment. An important unfavorable operating factor which applicant said he had recently experienced was the loss early in 1946 of government traffic that he had handled during the war and subsequently thereto, and which in previous periods had assertedly contributed considerable net revenue. The witness testified that his operations during 1945 had resulted in a loss in the amount of \$5,016, and indicated that for the five-month period February through June, 1946, his

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The interstate and permitted operations combined account for only about two per cent of the gross revenues.

operating loss was \$21,800. The greater loss during the five months of 1946 was held to be the result, primarily, of the termination of government traffic, for it was stated that the increased labor costs did not become effective until the latter part of, or subsequent to, this period. According to an exhibit, had the increased expenses and certain contemplated expenses prevailed throughout the five months, the total operating loss for the period would have been \$52,340.

Applicant calculated that the proposed rate increases would produce sufficient revenues to overcome losses at the prevailing level of expenses and leave about five per cent of his total gross operating revenues for income taxes and profit. He determined upon specific increases of 32 per cent on wooden furniture and 54 per cent on upholstered furniture after considering the average revenues per load and the gross revenues earned from the transportation of each type. He stated that a study of his freight bills showed that the transportation of wooden furniture contributed about the same amount of gross revenue as was earned from transporting upholstered furniture. The gross revenue per truck load differed considerably between the two types, however, because more sets of wooden furniture could be loaded in a truck than was possible with the more bulky upholstered furniture. Applicant explained that it was his purpose, by this application, to obtain about the same amount of dollar increase in revenue per truck load from each type of furniture.

With respect to the justification offered in support of the other adjustments proposed, it was stated that the present rates to San Diego group points are below those maintained for similar transportation to other points comparably distant from Los Angeles; and that the charge for pickup service in the San Francisco Bay area was justified by the fact that the shipments involved are small and that the

pickup service in connection therewith is more costly than that rendered in connection with other shipments which move in larger quantities.

Applicant did not anticipate any lessening in the volume of traffic under the proposed increased rates. He said that he is operating to capacity, and that there is such a demand for the type of transportation he performs that his volume would probably not be affected under present conditions.

Granting of this application was opposed by representatives of shippers and shipper associations of both the Los Angeles and San Francisco Bay areas, and by a representative of the Office of Price Administration. The representative of the Los Angeles association stated that the manufacturers who are members thereof make approximately 95 per cent of the furniture manufactured in southern California. He said his association opposed the increases sought because it believed that the increased rates would be unreasonably high and would result in financial loss to furniture manufacturers and dealers who would not be able to effect compensating increases in their prices under regulations of the Office of Price Administration. He declared, moreover, that the higher rates would make it difficult for association members to compete in the northern California market with furniture manufacturers located in other states. He thought the increased rates might cause manufacturers and dealers to turn to proprietary transportation as equipment becomes more available. The representative of the northern California association, which has a membership of 350 retail furniture dealers, opposed the increases sought on the ground that the dealers would be unable to adjust their prices to reflect the higher transportation costs. Both association representatives commended applicant's service as being superior to that available by other means of transportation and stated that they

would not object to any moderate and reasonable increase which the Commission might find necessary to insure continuation of Pixley's services. A representative of the Office of Price Administration stated that any rate increases herein authorized should not exceed actual increases in costs, and suggested that a rate increase of not over 18 per cent would be reasonable since such increase would conform to a recent price increase granted to the furniture industry by the Office of Price Administration.

A senior transportation engineer of the Commission's staff introduced as an exhibit the results of a study he had made of applicant's records for the year 1945, and for the first six months of 1946. He stated that in his study he had found some instances in which operating expenses had been charged with expenditures which should have been charged to capital accounts or to surplus. He indicated that depreciation reserves had been accrued at an abnormal rate. In his exhibit the engineer set forth proposed adjustments in operating expense. The exhibit included financial statements for 1945 and for the first six months of 1946.

Applicant's showing in this proceeding was based upon his operating experiences during a relatively short period of five months. It is usually expected that applications for increases in rates should reflect a longer period of time, since estimates based upon data covering a relatively short period may be unduly distorted by non-recurring factors. However, in the present instance it appears that the nature of applicant's business has been basically changed since the first part of 1946. He testified that during 1945, 76.5 per cent of the total tonnage handled was government traffic, and that of this government traffic more than 80 per cent (or 60 to 65 per cent

of all traffic) moved at double the normal tariff rates.<sup>5</sup> It seems clear that the loss of the government traffic has exercised a definitely detrimental effect upon applicant's net operating results. Under these circumstances it appears that operations prior to 1946 can be given but little weight in the determination of a proper level of rates for the future.

Applicant's operating revenue and expense figures for five months February through June, 1946, and his stated expense increases are summarized in the table below which was developed from exhibits of record:

TABLE I

Gross operating revenue . . .	\$152,336	
<u>Less-Gross operating expenses</u>	<u>174,136</u>	
Net operating <u>loss</u>		\$21,800
<u>Add-</u> Expense increases -		
Payroll	\$ 13,951	
Fuel	845	
General Office expense and supplies	500	
Insurance	2,124	
Payroll taxes	283	
Depreciation	10,337	
Terminal rents	<u>2,500</u>	<u>30,540</u>
Total five-month net operating <u>loss</u> at August level of expenses		\$52,340

The estimates of increased expenses for payroll, payroll taxes, fuel, general office expense and supplies, and insurance were developed on the basis of the level of payments applicant is now making, and they reasonably appear to reflect increased costs that must be expected in the future. The estimated increases for depreciation expense and terminal rent are less susceptible of precise

<sup>5</sup> Applicant's tariff provides that double the normal tariff rates and charges shall be assessed on shipments delivered to residences, flats, or apartment houses located within an extensive defined area in southern California. It was explained that much of the government traffic consisted of such shipments, and that the usual commercial shipments of this nature are few.

measurement. New equipment for which additional depreciation expense was claimed has not been procured, nor have definite lease arrangements for new terminal space been made. As old equipment is replaced, it is to be expected that some operating economies such as decreased maintenance expense may be effected.<sup>6</sup> Although higher depreciation expense and terminal rents may be anticipated, the claims therefor have not been demonstrated with sufficient certainty to permit their being given specific consideration for the purposes of this proceeding. Elimination of the additional amounts claimed for depreciation expense and terminal rents, as set forth in the table, will reduce the total five-month net operating loss at the present level of expense to \$39,503.<sup>7</sup>

Applicant's proposal to increase his rates for the transportation of wooden furniture by 32 per cent and for the transportation of upholstered furniture by 54 per cent involves not only the determination of whether these increases will overcome losses and return a reasonable profit, but also whether the levels of rates on the two classes of furniture would be relatively reasonable between themselves. Applicant introduced comparative statements designed to show that the gross revenue per load of wooden furniture was substantially more than that per load of upholstered furniture, and that rate increases of 32 per cent on the former and 54 per cent on the latter would produce approximately the same amount of additional revenue from a load

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<sup>6</sup> Applicant contended that higher costs of replacement parts will tend to offset such operating economies, and that maintenance costs during 1946 were below normal because of extensive repair work done in 1945.

<sup>7</sup> The loss figure would be further reduced by something less than \$1,660 if full effect were given to all adjustments suggested by the Commission engineer. However, the record was not sufficiently developed to justify adoption of these adjustments.



of either type. He indicated, however, that wooden furniture was more costly to handle because of its greater susceptibility to damage, because more labor was required to load, and because more individual shipments comprised a truckload, a fact which required more stops and more time for unloading. Since the handling of wooden furniture requires more labor per load than does upholstered furniture, and since the cost increases to which applicant testified are largely those involving labor, it would be reasonable to presume that wooden furniture has become relatively more unprofitable to handle than upholstered furniture. Applicant's proposal, however, is to apply the greater increase on the latter. We conclude that the proposed differential in rates of increase has not been justified on this record.

Had the percentage increase which applicant seeks in his rates for wooden furniture been applied to all shipments of both wooden and upholstered furniture transported during the five months February through June, 1946, and had the increased expenses heretofore discussed prevailed during that period, operating results would have been as set forth below:

TABLE 2

Gross operating revenue		\$152,336
Add increased revenue from 32 per cent increase in rates		<u>48,748</u>
Total gross operating revenue		\$201,084
<u>Less</u>		
Gross operating expenses	\$174,136	
Expense increases (Payroll, fuel, general office expense and supplies, insurance, payroll taxes.)	17,703	
Additional insurance and tax expense*	<u>2,750</u>	
Total operating expenses		<u>194,589</u>
Net operating revenue		\$ 6,495

(\*Computed on basis of increase in gross revenues.)

At the level of total operating revenues and expenses shown in the

above table, the operating ratio would have been 96.8 per cent.<sup>8</sup> Of his total gross revenues, applicant would have had a margin of 3.2 per cent to provide for further expense increases, contingencies, profit and income taxes. It seems clear that an increase of 32 per cent in all of applicant's rates and charges would not produce excessive revenues at the estimated level of expenses.

With respect to applicant's other proposals, to establish higher rates to San Diego group points and to provide an additional charge to apply to certain shipments given pickup service in the San Francisco Bay area, the record contains insufficient justification to authorize granting of the authority sought. Applicant did not show in connection with the rates to the San Diego group points that his comparisons were a fair measure of the rates in issue. He did not offer satisfactory cost or other specific data to support the proposed pickup charges, or to show the reasonableness thereof.

Consideration has been given in this proceeding to applicant's over-all revenue needs. Of necessity the Commission has not studied in this application each or any of the individual rates or charges as now published in Pixley's tariff for the purpose of determining the reasonableness and lawfulness thereof. In authorizing applicant to increase his present rates and charges by a given percentage, the Commission does not make a finding of fact of the reasonableness or lawfulness of any particular rate or charge.

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<sup>8</sup> Applicant did not supply rate base figures which would permit measurement of a net operating revenue of \$6,495 in terms of rate of return. The Commission engineer developed a rate base in the amount of \$62,440 on the basis of the depreciated book value of applicant's operating properties as of June 30, 1946, plus an allowance for working cash equivalent to one month's operating expenses, less depreciation. On this rate base, net revenues of \$6,495 for 5 months are equivalent to an annual rate of return of 25 per cent.

Upon careful consideration of all of the facts and circumstances of record in this proceeding, the Commission is of the opinion and finds as a fact that

1. An increase of 32 per cent in the express rates and charges of Melvin A. Pixley, doing business as Furniture Freight Forwarders; is fully justified and necessary to the maintenance of adequate transportation service.
2. In other respects the proposed increased rates and charges sought in this application have not been shown to be justified.

O R D E R

The above entitled application having been heard and submitted, full consideration of the matters and things involved having been had, and the Commission now being fully advised,

IT IS HEREBY ORDERED that Melvin A. Pixley, doing business as Furniture Freight Forwarders, be and he is hereby authorized to establish on not less than five (5) days' notice to the Commission and to the public increases in the amount of thirty-two (32) per cent in the rates and charges published in his Local Express Tariff No. 100, C.R.C. No. 1.

IT IS HEREBY FURTHER ORDERED that in all other respects the above entitled application be and it is hereby denied.

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  $\frac{1}{2}$  or .25 of a cent omit.  
Fractions of  $\frac{1}{2}$  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 1/2 or .50 of a cent omit.  
Fractions of 1/2 or .50 of a cent or greater,  
increase to next whole figure.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicant will never urge before this Commission in any proceeding under Section 71 of the Public Utilities Act, 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, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be void unless the rates and charges authorized in this order are published, filed, and made effective within ninety (90) days from the effective date hereof.

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 5th day of October, 1946.

Harold A. Hula  
Justin J. Craven  
Frank J. [unclear]  
John A. [unclear]  
A. J. [unclear]  
Commissioners.