

**ORIGINAL**Decision No. 39545

## 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 ) Application No. 27804  
 Corporation, for authority to in- )  
 crease certain local and joint rates. )

Appearances

Berol and Handler, by Marvin Handler,  
 for applicants,  
 Edson Abel, J. J. Deuel, John S. Griffin,  
 Thomas Louttit, Frederick W. Mielke,  
 C. W. Phelps, Eugene A. Read, Walter  
 Rohde, James L. Roney, J. C. Sommers  
 and J. Richard Townsend, for various  
 shippers, shipper organizations and  
 other interested parties,  
 C. O. Burgin and Myron D. Alexander, for  
 Office of Price Administration, intervenor..

O P I N I O N

Valley Motor Lines, Inc. is a highway common carrier of property serving the Sacramento and San Joaquin Valleys and the San Francisco Bay area.. Valley Express Co. is an express corporation rendering virtually a statewide service.. By joint application these carriers seek an increase of 15 per cent, for a period of one year, in their local rates and in the joint rates maintained by Valley Express Co. in connection with Sacramento-Corning Freight Lines, Ltd., an affiliated carrier..

A public hearing was had before Examiner Mulgrew at San Francisco on September 26, 1946..

The ownership and management of these two carriers are substantially identical.. The record shows that Valley Motor Lines, Inc. is the principal underlying carrier for Valley Express Co. and that the operations generally of these carriers are so interwoven

as to over-the-road and terminal activities that a consolidated showing is necessary for a true determination of their revenue requirements.

Exhibits were introduced covering applicants' combined operating results for the last half of 1945, and the first half of 1946 as compared to the results which would have obtained during the first half of 1946 at present operating costs and (a) under present rates; (b) under a 12½ per cent increase; and (c) under a 15 per cent increase.<sup>1</sup> These operating results are as follows:

Period	Operating Revenue	Operating Expenses	Profit or Loss	Operating Ratio
(1) Last 6 mos. 1945	\$1,036,718.30	\$1,060,179.00	( <u>\$23,461.70</u> )	102.3
(1) First 6 mos. 1946	1,129,771.21	1,136,950.99	( <u>7,179.78</u> )	100.6
(2) First 6 mos. 1946	1,162,208.79	1,228,929.74	( <u>66,720.95</u> )	105.7
(3) First 6 mos. 1946	1,307,758.01	1,236,031.02	#71,726.99	# 94.5
			*42,032.02	* 96.8
(4) First 6 mos. 1946	1,336,758.01	1,236,593.15	#100,164.86	# 92.5
			*58,696.61	* 95.6

- (1) Actual results.  
 (2) Results which would have obtained under present rates and operating costs.  
 (3) Results which would have obtained under present rates increased by 12½ per cent and under present operating costs.  
 (4) Results which would have obtained under present rates increased by 15 per cent and under present operating costs.  
 # Before income taxes.  
 \* After income taxes.

( ) Denotes loss.

<sup>1</sup>

Prior to date of hearing applicants proposed to exclude from the sought increase traffic moving between San Francisco Bay points on the one hand and Fresno and the Los Angeles territory on the other hand. This movement comprised 16.51 per cent of carriers' revenue. Exhibit No. 10 showing the operating results which would have obtained during the first half of 1946 by the application of a 15 per cent increase to 83.49 per cent of carriers' revenue during that period was prepared and presented in evidence. At the hearing applicants amended the application by seeking the 15 per cent increase on all traffic. Thus the revenue figure in the foregoing exhibit showing the effects of a 15 per cent increase on 83.49 per cent of carriers' revenue during the first half of 1946 actually represented only a 12½ per cent increase in applicants' total revenue during that period.

The foregoing expense figures have been adjusted to reflect certain necessary modifications in applicants' estimates based upon operations during the first half of 1946. One of these adjustments compensates for certain increased expenses in gross revenue taxes which would have accrued had the proposed increase been in effect during the period in question. The other covers compensation insurance premiums and gives effect to refunds customarily made in the last half of each calendar year.

By projecting the operating result for the first half of 1946 to a yearly basis, the 15 per cent increase would produce a rate of return of 14.2 per cent after taxes on a rate base of \$827,813.49.<sup>2</sup> Similarly a 12½ per cent increase would result in a rate of return of 10.2 per cent after taxes.

Applicants' witness testified that the unsatisfactory operating results which are being experienced were caused by steadily rising costs of insurance, equipment, materials and supplies, increases in wages, low efficiency of labor and the reduction of the work week to 5 days. He pointed out that applicants held 29 contracts with labor organizations which are subject to yearly expiration. Recent renegotiations of these contracts, he said, had resulted in increased wages or other concessions producing

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Of the rate base figure, \$587,313.81 represents the depreciated book cost of tangible operating property as of August 31, 1946, \$24,661.18 the value of materials and supplies on hand, \$199,030.37 the allowance for working capital (one month's operating expense less depreciation), and \$16,808.13 the cost of acquiring franchises. While the record does not specifically show that the \$16,808.13 consists solely of amounts actually paid to the State or its political subdivisions as consideration for the granting of the operative rights, any necessary adjustment of that figure would not materially affect the rate of return. Applicants introduced a rate base figure of \$928,990. In calculating this figure applicants included certain amounts covering "Other investments" and "Prepayments and Deferred Charges" which have not been shown to be proper in the determination of the rate base.

higher costs. He asserted that the trend was toward still higher costs for labor, equipment, materials and supplies and that he foresaw no prospect of this trend being arrested in the near future. The management, he contended, had made every effort to offset higher costs through operating economics.

Applicants' witness expressed the belief that while some traffic would be lost to competing carriers as a result of effecting the proposed increase, this loss would have very little effect on over-all operating results. He also testified that applicants intended to increase their interstate rates to the same extent as intrastate increases may be authorized in this proceeding. Interstate traffic, he estimated, amounted to 10 per cent of the entire volume.

The application as filed requested increases in joint rates only in connection with Sacramento-Corning Freight Lines, Ltd. At the hearing, however, applicants' president stated that increases in all joint rates were desired. He explained that statements showing the operating results of the connecting carriers, other than Sacramento-Corning Freight Lines, Ltd., could not be obtained in time for the hearing in this proceeding. He also expressed the belief that these carriers were in need of the increased revenue which would result under the proposed rates. It was testified that Sacramento-Corning Freight Lines, Ltd. experienced a net profit of only \$26 during August, 1946 and that this carrier was in need of any additional revenue which would result from the proposed joint rate increase.

No one opposed the granting of increased rates to the extent they are shown to be necessary to maintain service. The propriety of a blanket increase, such as here proposed, was questioned.

by a representative of S & W Fine Foods. He inquired of applicants' witness as to whether the solution of applicants' financial problems might not lie in the adjustment of the present rate relationships and minimum charges. The witness agreed that the present minimum charges are inadequate but contended that the adjustment of these charges as well as rate relationships is a statewide problem and not one which should be considered in this proceeding for a temporary increase.

Representatives of the Chambers of Commerce of Sacramento and Stockton voiced their objections to any rate adjustment which would produce joint rates and charges between points on applicants' lines and points beyond Sacramento and Stockton on the lines of connecting carriers lower than the local Sacramento or Stockton rates.

The record clearly shows that applicants are in need of additional revenue. It appears, however, that an increase of 12½ per cent is as high as is justified by the showing made. Increased joint rates have been shown to be required only to the extent necessary to avoid departures from the provisions of Section 24(a) of the Public Utilities Act.

#### 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 Valley Express Co. and Valley Motor Lines, Inc. be and they are, and each of them is, hereby authorized to establish on not less than two (2) days' notice to the Commission and to the public, an increase of twelve and one-half (12½) per cent in all of their local rates and charges and in their joint rates and charges to the extent necessary to avoid departures from the provisions of Section 24(a) of the Public Utilities Act.

IT IS HEREBY FURTHER ORDERED that the increase in rates and charges herein authorized, if established, shall be published and filed to expire one (1) year after 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 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 the 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 in applying the increase hereinabove authorized, the rates specifically set forth in the tariffs involved in this application shall be increased before computing rates which are based on multiples or percentages of rates or ratings or before applying deductions provided for in these tariffs.

IT IS HEREBY FURTHER ORDERED that Valley Express Co. and Valley Motor Lines, Inc. be and they are, and each of them is, hereby authorized to depart from the provisions of Tariff Circular No. 2, General Order No. 80, and Section 24 (a) of the Public Utilities Act, 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 ten (10) days from the date hereof.

Dated at San Francisco, California, this 22<sup>nd</sup> day of October, 1946..

Harold P. Kula  
Justin F. Garner  
Arthur D. ...  
...  
R. J. ...  
 Commissioners